Canada. Royal commission on
banking and currency in Canada
Report. 1933

# REPORT

## OF THE ROYAL COMMISSION

ON

# Banking and Currency in Canada

1933

OTTAWA
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## ORDER IN COUNCIL P.C. 1562

CERTIFIED *to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by the Deputy of His Excellency the Governor General on the 31st July, 1933.*

The Committee of the Privy Council have had before them a report, dated 31st July, 1933, from the Acting Prime Minister, representing as follows: —

That it is desirable that the approaching periodic revision of The Bank Act, which will precede the enactment of a measure to continue the charters of the existing banks, to which said Act applies, and which expire on July 1, 1934, shall be based on a complete and detailed examination of the provisions of said Act and of the functions and operations thereunder of the banking system thereby established;

That it is also desirable that such examination should include a study of the facilities now afforded by The Finance Act and a careful consideration of the advisability of establishing in Canada a Central Banking Institution, and, if so established, of the relation of such Central Banking Institution to existing banks and its proper authority and function in the operation of the banking system of Canada;

That such examination should also include a study of the entire monetary system of Canada, including credit, currency and coinage, particularly in their relation to commodity price movements and fluctuations in international exchange;

That it is also advisable to consider whether and in what respects the banking institutions and the monetary system of Canada may be modified, extended or developed for the purpose of facilitating intra-Imperial and international co-operation in public policies designed to promote the revival of domestic and foreign trade and enterprise and the general increase of employment and to ensure a greater measure of stability in respect thereto.

The Minister, therefore, recommends that—

1. The Right Honourable Lord MACMILLAN, P.C., K.C., of the City of London, England;

Sir CHARLES STEWART ADDIS, K.C.M.G., of the City of London, England;

The Right Honourable Sir WILLIAM THOMAS WHITE, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario;

The Honourable JOHN EDWARD BROWNLEE, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta; and

BEAUDRY LEMAN, Esquire, B.Sc., C.E., of the City of Montreal, in the Province of Quebec;

be appointed Commissioners under Part 1 of The Inquiries Act for the purpose of examining, considering and reporting upon all the matters hereinbefore recited;

2. That, without limiting the general scope of their inquiry into the operation of the banking and monetary systems of Canada, the said Commissioners shall in particular, examine the provisions and working of The Bank Act, The Dominion Notes Act, The Finance Act and The Currency Act, and the advisability of establishing a Central Banking Institution; and

3. That said Commissioners shall report their recommendations for revising or supplementing the above mentioned Acts and for the adoption of such other measures as they may deem desirable to promote the revival of trade and enterprise and to facilitate intra-Imperial and international co-operation for the purpose of raising the level of commodity prices and for the purpose of ensuring increased domestic employment and the stability of the economic, financial and social institutions of this country.

The Minister further recommends that The Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England, be Chairman of the said Commission.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd) G. G. KEZAR,
*Asst. Clerk of the Privy Council*

## THE ROYAL COMMISSION

CANADA

LYMAN P. DUFF,

*Deputy Governor General.*

GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas KING, Defender of the Faith, Emperor of India. To all to whom these Presents shall come or whom the same may in anywise concern.

GREETING:

WHEREAS pursuant to the provisions of Part I of the Inquiries Act, Revised Statutes of Canada, 1927, Chapter 99, His Excellency the Governor General in Council by Order P.C. 1562, of the thirty-first day of July in the year of Our Lord one thousand nine hundred and thirty-three, copy of which is hereto annexed, has authorized the appointment of Our Commissioners therein and hereinafter named to inquire into and make a complete and detailed examination of the provisions of the Bank Act, Revised Statutes of Canada, 1927, Chapter 12, and of the functions and operations thereunder of the banking system thereby established (with particular consideration of the subject matters set out in the said Order, without, however, limiting the generality of the inquiry).

NOW KNOW YE that by and with the advice of our Privy Council for Canada, We do by these presents nominate, constitute and appoint The Right Honourable Lord Macmillan, P.C., K.C., of the City of London, England; Sir Charles Stewart Addis, K.C.M.G., of the City of London, England; The Right Honourable Sir William Thomas White, P.C., K.C.M.G., of the City of Toronto, in the Province of Ontario; The Honourable John Edward Brownlee, K.C., M.L.A., of the City of Edmonton, in the Province of Alberta; and Beaudry Leman, Esquire, B.Sc., C.E., of the City of Montreal, in the Province of Quebec, to be

Our Commissioners to conduct such inquiry.

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said Lord Macmillan, Charles Stewart Addis, William Thomas White, John Edward Brownlee and Beaudry Leman together with the rights, powers, privileges and emoluments unto the said office, place and trust, of right and by Law appertaining, during pleasure.

AND WE DO further appoint the said The Right Honourable Lord Macmillan, P.C., K.C., to be Chairman of Our said Commission.

IN testimony whereof We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto affixed. — WITNESS: —

Our Right Trusty and Well-beloved Counsellor the Right Honourable Lyman Poore Duff, Chief Justice of Canada and Deputy of Our Right Trusty and Right Well-beloved Cousin and Counsellor, Vere Brabazon, Earl of Bessborough, a Member of Our Most Honourable Privy Council, Knight Grand Cross of Our

Most Distinguished Order of Saint Michael and Saint George, formerly Captain in Our Territorial Army, Governor General and Commander-in-Chief of Our Dominion of Canada.

At Our Government House in Our City of Ottawa, this thirty-first day of July in the year of Our Lord one thousand nine hundred and thirty-three and in the twenty-fourth year of Our Reign.

By Command.

(Signed) THOMAS MULVEY,
*Under-Secretary of State.*

# Report of the Royal Commission to Inquire into Banking and Currency in Canada

TO HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL:

MAY IT PLEASE YOUR EXCELLENCY:

We, the Commissioners appointed by Order in Council, P.C. 1562, of the 31st July, 1933, have the honour to report that in pursuance of the terms of reference contained in the said Order in Council, we have conducted an inquiry into the functions and operations of the Canadian banking and currency systems and allied matters.

The first public sessions were held at Ottawa for the purpose of receiving preliminary historical and descriptive data from representatives of the Dominion Government and the chartered banks. Immediately following these hearings, we undertook an itinerary which included visits to important centres in each of the provinces. Public sessions were held at Victoria, Vancouver, Calgary, Edmonton, Saskatoon, Regina, Winnipeg, Halifax, Charlottetown, Saint John, Quebec, Montreal and Toronto. Representations were invited from provincial and local governments, public bodies and associations, and individuals and in the course of the hearings much useful information was obtained. In addition to the testimony offered at the public hearings, we received many communications from organizations and individuals who did not find it convenient to appear at the public sessions. A list of the witnesses who appeared, and of the organizations and persons who filed submissions, is included as an appendix to our report.

During our hearings, a number of topics emerged around which criticism of the operation of the banking system centered. The banks were invited to submit their views on these subjects and also on any other matters with which they might desire to deal. The concluding public sessions, which were held at Ottawa, were devoted mainly to hearing representatives of the banks in this connection.

# CHAPTER I

## INTRODUCTORY

1. The immediate occasion of our appointment, as the preamble of the Order in Council indicates, was the approaching expiry of the charters of the Canadian banks which, under the Bank Act of 1923, were due to terminate on 1st July, 1933, but which, by the Bank Charters Continuation Act, 1933, have been extended to 1st July, 1934. Since the enactment of the first general Bank Act for Canada in 1871, the legislative practice has been to renew the charters of the banks at decennial intervals (apart from two temporary extensions in 1911 and 1912), a method which has the advantage of enabling Parliament to review and revise the national banking code from time to time in the light of growing experience. The social and economic conditions of a progressive community alter and develop and its banking system, which forms an essential part of the economic structure of the country, must continually adjust itself to these changing conditions.

2. The revision now due is the sixth, previous revisions having taken place in 1880, 1890, 1900, 1913 and 1923. These previous revisions were undertaken in ordinary course by the Parliament of Canada and have resulted, as will be seen in the sequel, in progressive adaptation of the banking code to the requirements of the nation. The records of the proceedings in Parliament and before the Select Standing Committees on Banking and Commerce provide a valuable indication of the problems which have from time to time presented themselves and of the proposals put forward for their solution. As the result of the last revision ten years ago, the banking code of Canada is now embodied in an elaborate statute of 168 sections and numerous schedules.

3. In the forthcoming session of Parliament the work of revision will no doubt follow the same procedure as in the past, but we understand that on this occasion it has been thought desirable that as a preliminary measure a special survey of the financial equipment of the country should be undertaken which might serve as an aid to Parliament in its important task. The financial conditions of the ten years which have elapsed since the last revision have been so entirely abnormal as not only to give rise to a host of new problems of the most far reaching kind, but also to present many old problems in an entirely new guise. The adequacy of the political, social and economic institutions of all countries during this period of exceptional strain has not unnaturally been called in question and subjected to criticism. Distress always fosters mistrust. The banks could not hope to be immune from such questioning. No doubt, by the nature of their business, banks are necessarily conservative institutions inasmuch as the services which they render to the community are dependent on their stability. They deal in credit which predicates confidence, and confidence can only be inspired by stability and trustworthiness. But the important part which they play in the national life and the influence which they exert in the daily concerns of the people require that they should justify by their efficiency the privileges which are conferred on them.

4. Our terms of reference require us not merely to examine the banking system of Canada and its operation but also to investigate the working of the Finance Act and other related statutes, to consider the advisability of establishing a central banking institution, to study the entire monetary system of Canada, particularly in relation to commodity price movements and inter-

national exchange fluctuations, to consider whether the monetary system of Canada may be so modified and developed as to facilitate intra-Imperial and international co-operation in policies designed to promote the revival of trade, the increase and stability of employment and the raising of the level of commodity prices, and generally to make such recommendations as we may deem proper for revising or supplementing existing legislation or for the adoption of other measures calculated to promote the economic and financial welfare of Canada. Within the latitude of so wide a reference it might no doubt be open to us to attempt to investigate every aspect of the political, social and economic life of Canada. We have taken a more moderate view of the duty entrusted to us and have considered it rather to be our task to enter upon the field of these large topics only insofar as they affect and are affected by the more specific subject of our study, namely, the banking and currency systems of Canada. This indeed involves a sufficiently extensive survey. To arrive at an opinion on the adequacy of the existing systems necessitates an appreciation of the medium in which they have to work. Accordingly, we have to take into account the present economic situation as we find it with all the new and perplexing elements which it presents.

5. The most diverse explanations have been offered of the causes which have brought about the existing distress. It is happily not our task to distribute the blame among the various contributing factors. But it is common ground that to some extent at least—though authorities dispute to what extent—monetary and financial causes must bear a share of the responsibility. Yet it must always be remembered that even a perfect system of finance may be thrown into confusion by the catastrophe of war or other profound disturbances and by a disregard of sound economic principles on the part of governments. A fair and efficient financial system can do much to promote a wise policy of national recovery while an inequitable and inefficient one can do much to impede it. The success of any financial system is ultimately dependent upon sound national policy.

6. Subject to these considerations, it is obviously well that at such a time as this the adequacy of the financial mechanism of any country to the new demands made upon it should be examined in order to ascertain whether the existing mechanism is working well or could be made to work better, not only under existing conditions but under those likely to prevail with the return of normality. The world will not return to the *status quo ante*. When prosperity returns, it will return to a world changed in many important respects. We have to see whether in the particular sphere of our inquiry Canada has the best equipment to deal with these new conditions, having regard to all their economic implications.

7. In such a time of difficulty experiment is justifiable. Unfortunately there is no laboratory in which such experiments can first be tried. They can only be tried upon the lives and fortunes of human beings and if they fail they may be productive of untold misery. The mechanism of finance is a delicate one; the confidence upon which it is based is a slow growth, but it may be destroyed over-night, and those to whom is entrusted responsibility for the welfare of the people must proceed with caution in the adoption of changes. Nor is it to be lightly assumed that methods which have succeeded in one country will necessarily succeed in another. The transplantation of institutions has not always been attended with happy results. Each country has a genius of its own, the result of its history, its traditions, its climate, the temperament of its people, its political institutions and its economic conditions. It has, in the language of the day, its own psychology. To this its institutions must necessarily be suited. But the experience of other countries, while it must be studied with this admonition in mind, affords some guidance in the consideration of proposed innovations.

8. The development of Canadian banking exhibits the manner in which it has been sought to adapt its working to the special needs of the country. A few instances will serve. One of the most distinctive features of Canadian banking from earliest times has been its widespread system of branches. The first general regulation in the Act of 1871 (section 4) authorizes the banks to which it applies "to open branches or agencies and offices of discount and deposit and transact business, at any place or places in the Dominion." This policy, following Scottish precedent, has proved of much value to a country of great distances and to industries dispersed over wide areas. Canadian banking has in this respect adapted itself to the widespread enterprises of the fur trade, wheat production, lumbering and fisheries which it grew up to serve. The provision of the Bank Act authorizing an additional issue of notes during the usual season of moving the crops between September and the following February is another illustration of the adaptation of banking practice to the special requirements of Canada. Of interest to the lawyer is the modification of the law of pledge, which is to be found in section 88 of the Act of 1923 and which has been progressively extended since the original Act of 1871, a provision designed to enable the financing of those who have no available security to offer for advances, except assets which must necessarily remain in their own possession. Not less significant has been the insistence of Parliament from the first that the banks should be prohibited from lending on real estate, thus saving them from the disasters which have befallen banks not similarly restrained.

9. Other features embodied in the Canadian system which have been devised in the course of its history will be more fully discussed hereafter. They include the institution and statutory recognition of the Canadian Bankers' Association, the system of Dominion note issue under the Finance Act, originally a war emergency measure but now, as amended, part of the normal peace-time machinery, and the existence of a system of government inspection by an Inspector General of Banks.

10. The banking organization which we are called upon to examine is thus seen to have been the result of a long process of evolution, subject to control by Parliament and exhibiting, in the elaborate and frequently varied regulations of the Bank Act, a progressive adaptation to the special requirements of Canada.

11. But these adaptations, with the exception of the Finance Act, have for the most part been within the sphere of what may be termed routine banking. They have been devised in a world steadied by the more or less automatic control of the gold standard and have been designed to meet the normal exigencies of Canadian banking practice. The recent upheaval of the world's finances and the general departure from the gold standard have led to an increased recognition of the influence which, consciously or unconsciously, the monetary system of a country has upon its general economy and of the part which a wisely-regulated banking system may play on a wider stage. The commercial banker has very properly in the past regarded his responsibility as mainly confined to safeguarding the interests of his depositors and shareholders and to making judicious loans and investments with the funds entrusted to him. But it is now coming to be realized that other less obvious but also important responsibilities rest upon the banking system of a country. It must bear a share in trying to maintain stability and to regulate the quantity and flow of credit; it must interest itself in price levels, in the fluctuations of exchange, in international monetary co-operation—in short, in all the matters which concern national finance. In judging of the adequacy of a modern banking system its ability to lend assistance in these wider spheres of action must be taken into account.

12. During our hearings much testimony was received alleging an inadequate supply of credit having regard to the needs of various communities with their diverse activities, and many specific complaints were voiced touching rates of

interest and other bank charges as well as the general administration and practice of Canadian banks. These matters are concerned with the routine business of domestic banking and do not involve consideration of any fundamental change in the banking system. They are, of course, of great moment to those concerned and we shall deal with them hereafter as fully as practicable in their proper perspective. But we conceive that our larger concern is with the more difficult subject of the adequacy of the existing Canadian financial system to assume new and increasing responsibilities. That no doubt is why we are required to consider the advisability of establishing some form of central bank in Canada. We shall of course fully discuss this problem but from what we have said above, it will be obvious why the matter of a central bank has attained the importance of being the only specific subject which we are asked to consider.

13. In the course of our hearings throughout the Provinces of Canada the most diverse views have been expressed upon a great variety of economic and financial questions. At some places we heard evidence tendered to us by witnesses who advocated a complete supersession of the present banking code by a socialized or nationalized system. We refrain, however, from any comment on these proposals, as it is obvious that their adoption would involve a complete change in the whole existing system and this is a matter not within the terms of our reference.

14. The plan of our report is simple. We set out briefly in the first place the history and present methods of operation of the Canadian banks and other financial institutions. We then give a description of the salient features of the general economic position of Canada as we find it. Next we discuss the monetary and financial problems to which such a situation gives rise, and the methods available for dealing with such problems. This leads us to consider how far the existing banking and financial mechanism, as we have described it, is adequately equipped to cope with the problems indicated. We next make our observations upon certain matters of banking practice and administration raised in the course of our hearings. Finally we make our recommendations as to the legislative and other measures which we suggest should be adopted.

15. We may conclude this prefatory chapter with two general observations. In the first place we wish to emphasize that our endeavour has been to consider the questions submitted to us objectively and with the single aim of improving and strengthening the Canadian banking and financial structure. Such questions no doubt have their political aspect but they need for their solution light, not heat. In the next place, we must forestall disappointment by disclaiming any ability on our part to offer an infallible prescription for national recovery. We do trust, however, that the results of our study as here set forth may help to inform public opinion upon the difficult and intricate questions with which we have to deal. Some matters we regard as appropriate for elucidation and comment rather than for specific recommendations. And while we may set out the consequences as we see them of particular policies and tendencies, we are not so presumptuous as to venture to prescribe to the Government of the country what course it should adopt in matters of high executive policy which lie outside the scope of our inquiry, but which may nevertheless have a most decisive bearing upon national finance. We shall be content if our recommendations are such as to promote the strengthening of the financial structure of the nation.

# CHAPTER II

## AN HISTORICAL SKETCH OF THE FINANCIAL INSTITUTIONS OF CANADA

16. The Canadian financial system is the result of a process of gradual growth and development extending over rather more than a century. This evolution has been influenced by a number of factors, geographical, political and economic. Thus, in order that there may be a proper appreciation of the existing system, we propose to give a brief summary of its historical background.

17. Geographically Canada is divided into four parts—the eastern maritime section, the central area, the Prairie Provinces and the Pacific coast. Each part has its own special economic interests, which renders it difficult to treat Canada as a single economic unit. This regional diversification has had a marked effect on the Canadian banking system and has influenced the development of branch banking so as to meet the varying seasonal demands of industries situated widely apart.

18. An important factor in the development of the system has been the proximity of the United States, whose economic problems have been in many respects similar to those of Canada. The Canadian banks have always been in close contact with financial centres in the United States.

19. So profoundly has the economic development of Canada affected its banking system that it is possible to trace a correspondence between the stages of Canadian banking organization and the stages of the country's economic progress. The first period was that of a local economy where money and not banking facilities was needed. The second was that of trade over a wider area with a consequent need for at least local banking facilities. The third stage was that of industrial development where wider markets made necessary increased banking facilities. These stages of development have resulted in the growth of the Canadian banks from small local concerns to the present large institutions with branches throughout Canada and in many foreign countries. Such evolution is not in itself unusual but the fact that it has been so rapid and so recent in Canada must be borne in mind if the characteristics of the present-day system are to be properly appreciated.

### 1. THE CHARTERED BANKS

20. With the secession of the thirteen American colonies in 1776, only the northern portion of the continent was left under British control. Of this area the eastern section was later organized into provinces, each in direct communication with the British Government and having its separate currency and banking systems. These conditions existed until Confederation in 1867. Accordingly, in one sense the Canadian banking system properly so called can be said to date only from this event, though of course its foundations were laid in the past. We are concerned primarily with the consolidated system starting with Confederation and consequently only a brief recital of the earlier history need be given here. Those who desire to pursue the study of the subject will find it exhaustively treated in *The Canadian Banking System, 1817-1890,* by R. M. Breckenridge[1], and in the writings of Adam Shortt and other recognized authorities.

[1] New York: American Economic Association, 1895.

21. It is generally agreed that the Canadian banking system is a direct descendant of the first Bank of the United States, and an examination of the bills incorporating the early banks of Canada exhibits this influence. Most of the bank charters of Upper and Lower Canada followed the charter of the Bank of Montreal, which embodied all the essential clauses and even some of the phraseology of the charter of the first Bank of the United States. The Bank of Montreal's charter (granted in 1822) is thus typical and indicates the lines along which Canadian banking development then proceeded.

22. The first bank charter granted in the Maritime Provinces was that of the Bank of New Brunswick which was influenced by New England banking laws. The other Maritime banks followed mainly along the lines of the Bank of New Brunswick but it may be said that generally the constitution of the Upper and Lower Canada banks exercised a predominant influence on the first Bank Act of the Dominion of Canada.

23. The period before 1867 was formative and important. Many modifications in the early charters had been effected by 1867 but the general principles which they embodied remained substantially unaltered.

24. Although the federal government was given control of banking and currency in 1867, the first comprehensive Dominion Bank Act was not passed until 1871. In the interval all banks worked under their existing provincial charters which had been continued. As the Act of 1871 is the first of the Dominion Bank Acts, and gave its direction to the present system, its provisions are here summarized.

25. An outstanding feature of the Act of 1871 was what is commonly referred to as the double liability clause, which in effect renders a shareholder liable (in addition to the extent to which his shares are not paid up) for an amount equal to the par value of the shares held by him, or so much thereof as may be needed to pay the debts and liabilities of the bank. This double liability provision made its first appearance in Canadian banking legislation with the incorporation of the Bank of Nova Scotia in 1832, being later made part of an Act renewing the charter of the Bank of Montreal in 1841. It may be remarked that shareholders of the National banks and the Federal Reserve Banks in the United States are subject to a similar liability, while the same is true of a large proportion of the State banks. In Great Britain, while the statutory position is not the same, the capital stock of practically all the leading banks is only partially paid up; the uncalled capital, therefore, remains as a liability of the shareholders to the creditors of such banks. The extent to which double liability has been collected from shareholders of Canadian banks that have gone into liquidation during the past thirty years is indicated in the appendix summary of bank liquidations since 1867. The Act of 1871 required a capital of $500,000, of which $100,000 had to be paid in before beginning business and a second $100,000 within two years; the remainder could be called as required. Bank notes could be issued in denominations of $4 or upwards, and the banks were required to receive their own notes in payment at any office, although the notes were only redeemable in specie at expressly designated offices, of which one had to be the principal office. There were no reserve requirements except that the banks should keep at least one-third of their cash reserves in Dominion notes. The banks were prohibited from lending on their own stock, or on real estate, and from paying dividends out of capital. The directors were required to have certain minimum holdings of stock, and their borrowings might be restricted by by-law. Certified lists of shareholders and more detailed monthly returns were to be given to the government; false returns constituted an offence for which penalties were prescribed. If a bank suspended payment of its liabilities for more than ninety consecutive days in a year, its charter was forfeited. The charters expired in ten years. In 1873 and in 1875 the monthly statistical return to the government was

made more comprehensive, while in 1879 a clause was inserted prohibiting the banks from lending on the stock of other banks. These were the only changes of any significance made between 1871 and 1880, when the first general revision of the Act was undertaken.

26. The period from 1867 to 1883 was one of general economic progress in the Dominion and the banks shared in this increase of prosperity. Between 1867 and 1873 remarkable growth took place, while the last two or three years of the period were also times of great activity. Between 1867 and 1881 thirty bank charters were issued by the government resulting in the formation of some twenty new banks, a fact in itself indicative of the financial expansion during this period. The number of branches operated increased from 147 in 1868 to 335 in 1884, and the resources of the banks increased greatly.

27. In the midst of this period, however, there occurred a general depression which was severely felt in Canada. There resulted a number of bank failures and the consequent losses, particularly in respect of the notes of the failed banks, led to certain changes being made at the revision of 1880.

28. Some of the more important of these changes may be mentioned. Bank notes were made a prior lien on the general assets of the bank, while the denominations of bank notes were fixed at $5 or multiples of that sum. Forty per cent of the cash reserves had to be kept in Dominion notes, while the banks were required to pay up to $50 in $1 and $2 Dominion notes, if so requested. The sections dealing with loans on warehouse receipts and bills of lading were broadened, and the monthly returns to the government were required in greater detail. The Act of 1880 extended the charters of the banks for ten years and prohibited the use of the title " bank " by other than chartered banks.

29. The decade 1880-1890 witnessed the completion of the construction of the Canadian Pacific Railway main line to the Pacific coast. It was a period characterized by expanding business and increasing immigration and settlement with gradual economic reaction and decline in its later stages. Thirteen banks were incorporated between 1882 and 1886.

30. In the twenty-three years between Confederation and 1889 ten banks failed and nine others withdrew from business, involving heavy losses to shareholders, depositors and noteholders. As a result of these unhappy experiences the revision of 1890 incorporated several new features in the Bank Act.

31. The establishment of the Bank Circulation Redemption Fund for bank notes was one of the most important innovations effected by the Act of 1890. By this provision, the banks were required to deposit with the Minister of Finance five per cent of their average yearly note circulation and, if necessary, further assessments could be made. If the liquidators of a failed bank did not arrange for the redemption of its notes, they were to be redeemed out of this fund; and from the time of suspension until redemption was announced, the notes were to bear six per cent interest; any unclaimed balances, upon liquidation, were to be taken over by the government without prejudice to future claims. By this provision it was hoped to protect the note holders from loss through the notes being at a discount. The banks were also required to establish various agencies throughout Canada for the redemption of their notes.

32. While the minimum capital required to start a bank was left at $500,000, the amount which had to be paid in before beginning business was raised to $250,000; and it was further stipulated that this amount must be deposited with the Minister of Finance before the Treasury Board's certificate authorizing the commencement of business could issue.

33. The sections of the Act pertaining to loans on warehouse receipts and bills of lading were revised and provisions enacted authorizing the banks to lend to manufacturers upon the general security of goods manufactured or procured for manufacture and to wholesale purchasers and shippers of natural products on the security of such produce. Other changes were made which established the Crown as a prior creditor after bank note holders, and permitted foreign citizens to be directors so long as the majority of the board were British subjects. In accordance with past practice charters were extended for ten years.

34. In 1892 the Canadian Bankers' Association was formed of which the chartered banks were members, and bank officers and clerks, associates. This was a voluntary association which later came to have an important influence on Canadian banking.

35. In 1899 banks were authorized to issue notes in denominations of one pound sterling or multiples of that sum, for circulation in colonies outside Canada, a concession to the growing external business of the Canadian banks. During the 'nineties Canadian expansion went on at a slower rate with the result that only one bank (in 1890) was chartered between 1886 and May, 1901. In 1898 a new era of Canadian expansion began, which lasted until 1913, concurrent with railway construction and the growth of immigration and settlement; between 1901 and 1908 no less than twenty new bank charters were granted.

36. In the session of 1900, Parliament incorporated the Canadian Bankers' Association, which was empowered " to promote generally the interests and efficiency of banks and bank officers and the education and training of those contemplating employment in banks." The Association was also empowered to establish and regulate clearing houses, of purely voluntary membership. At the revision of the Bank Act in 1900 the Association was assigned certain functions, including control by a curator over suspended banks pending the appointment of a liquidator. The Association was also given supervision over the issue and destruction of bank notes. The by-laws of the Association were made subject to approval by the Treasury Board. In 1901 the by-laws of the Association came into effect according to law. They required from every chartered bank doing business in the Dominion a monthly return, under penalty of fine, showing all the details of their circulation. Provision was also made for an annual inspection of the circulation account of each bank. A considerable amount of co-operation among the banks resulted from the formation of the Association.

37. General provisions were inserted in the Act regulating mergers and amalgamations of banks, with the result that special approval by Parliament ceased to be requisite. All that was required was a proposal of purchase, the consent of two-thirds of the shareholders of the selling bank, and the approval of the Governor in Council, given on the recommendation of the Treasury Board. The Act also allowed the shareholders to call for information from the directors in addition to the regular reports. Other changes were the reduction of the rate of interest on notes of suspended banks from six per cent to five per cent, and the limitation of holdings of real estate, taken as additional security to twelve years; after that period real estate so held was rendered subject to seizure by the Crown upon six months' notice, although it could be legally disposed of within the six months. The form of the monthly statement was amplified and the charters extended for ten years.

38. The period from 1900 to 1913 was one of unprecedented economic development in Canada in which the banks played a very important part. Their resources and branches increased greatly and as a result of the altered conditions some changes were made in the Act during this period. In 1904 the power of the banks to issue notes in British colonies was enlarged, and in 1905 the limitation of bank directorates to ten members was removed. For some years it had been

becoming evident that the note circulation of the banks was approaching the limit of paid-up capital. The agricultural development, particularly in the Prairie Provinces, made the situation unusually acute during the crop-moving season. The elasticity of the bank note circulation, which had always been regarded as one of the most desirable features of the Canadian banking system, was reaching its limit. As a result the Bank Act was amended in 1908 to permit a bank to issue notes in excess of its paid-up capital to the amount of fifteen per cent of its combined rest fund and unimpaired paid-up capital; this facility could only be used between October 1 and January 31 of the next year, which were the four months when the crops were moved. These excess issues were subjected, while outstanding, to a tax of not more than five per cent per annum to be fixed by the Governor in Council; in practice, the maximum rate of five per cent has always been charged.

39. For special reasons the next decennial revision of the Bank Act was postponed in 1911 and 1912, and did not take place until 1913. The main changes made at this revision were: (1) the establishment of the central gold reserves, by which four trustees were empowered to receive from the banks deposits of gold or Dominion notes, against which the banks might issue an equal amount of their own notes; (2) the requirement of a shareholders' audit along the lines of the provisions of the English Joint Stock Companies Act; (3) the extension by two months of the period during which the banks could issue the "excess" note circulation; and (4) some changes respecting loans to farmers. In 1915 and 1916 further amendments with respect to lending on cattle and for the purchase of seed grain were made to the Bank Act, otherwise the Act of 1913 remained virtually unchanged until the revision of 1923.

40. At the revision of 1923 provision was made for the registration of security for loans under Section 88. A great deal of criticism had been directed to the injustice to other creditors resulting from non-disclosure of the banks' prior lien. It was accordingly required that notice of intention to borrow under Section 88 must be registered at the office of the Assistant Receiver General in the province of the borrower. The shareholders'-audit provisions were strengthened and annual and monthly returns elaborated with the added requirement that statements of controlled companies in the names of which any part of a bank's operations were carried on must be furnished. Provision was also made for keeping records of attendance at directors' meetings and bringing them to the notice of shareholders. Regulations regarding loans were amended and advances to any officer or clerk of a bank could not, in any circumstances, be granted in excess of $10,000. It became necessary for guarantee and pension funds to be invested in trustee securities.

41. As a result of the Home Bank failure in 1923 the Bank Act was amended in 1924 and provision made for government inspection. This change was the only one of importance made after 1923 and the Act under which the banks now operate is the statute of 1923 with the amendment of 1924.

42. During the present century an important feature in the development of Canadian banking has been the reduction in the number of banks by amalgamations, a process facilitated by the provisions of the Act of 1900. In 1900 there were thirty-eight chartered banks sending in reports to the Department of Finance. By the end of the War this number had been reduced by amalgamations and one relatively unimportant failure to nineteen, notwithstanding that a number of new charters had meantime been granted. Since the War the process has continued and at the present time there are ten chartered banks in Canada. We append tables setting out the amalgamations which have taken place since 1867, and also the Principal and Total Assets and Liabilities of each of the existing chartered banks at 30th June, 1933. In the Appendix a summary is given of the bank liquidations since 1867.

## Table 1

### AMALGAMATIONS SINCE 1867[1]

| Purchasing Bank | Bank Absorbed | Date[2] |
|---|---|---|
| Bank of Montreal | Exchange Bank of Yarmouth, N.S. | Aug. 13, 1903 |
| | People's Bank of Halifax, N.S. | June 27, 1905 |
| | Ontario Bank | Oct. 13, 1906 |
| | People's Bank of New Brunswick | April 15, 1907 |
| | Bank of British North America | Oct. 12, 1918 |
| | Merchants' Bank of Canada | March 20, 1922 |
| | Molson's Bank | Jan. 20, 1925 |
| Canadian Bank of Commerce | Gore Bank | May 19, 1870 |
| | Bank of British Columbia | Dec. 31, 1900 |
| | Halifax Banking Co. | May 30, 1903 |
| | Merchants' Bank of P.E.I. | May 31, 1906 |
| | Eastern Townships Bank | Feb. 29, 1912 |
| | Bank of Hamilton | Dec. 31, 1923 |
| | Standard Bank of Canada | Nov. 3, 1928 |
| Bank of Nova Scotia | Union Bank of P.E.I. | Oct. 1, 1883 |
| | Bank of New Brunswick | Feb. 15, 1913 |
| | The Metropolitan Bank | Nov. 14, 1914 |
| | The Bank of Ottawa | April 30, 1919 |
| Royal Bank of Canada | Union Bank of Halifax | Nov. 1, 1910 |
| | Traders' Bank of Canada | Sept. 3, 1912 |
| | Quebec Bank | Jan. 2, 1917 |
| | Northern Crown Bank | July 2, 1918 |
| | Union Bank of Canada | Aug. 31, 1925 |
| Imperial Bank of Canada | Niagara District Bank | June 21, 1875 |
| | The Weyburn Security Bank | May 1, 1931 |
| Banque d'Hochelaga[3], | Banque Nationale | April 30, 1924 |
| Bank of New Brunswick | Summerside Bank | Sept. 12, 1901 |
| Merchants' Bank of Canada | Merchants' Bank | Feb. 22, 1868 |
| | Commercial Bank of Canada | June 1, 1868 |
| Union Bank of Halifax | Commercial Bank of Windsor | Oct. 31, 1902 |
| Northern Crown Bank | The Northern Bank | July 2, 1908 |
| | Crown Bank of Canada | July 2, 1908 |
| Union Bank of Canada | United Empire Bank | March 31, 1911 |
| Home Bank of Canada | La Banque Internationale du Canada | April 15, 1913 |
| Standard Bank of Canada | Western Bank of Canada | Feb. 13, 1909 |
| | Sterling Bank of Canada | Dec. 31, 1924 |

[1]The purchasing banks named in the latter part of the table are no longer in business.
[2]Dates given since 1900 are those of the Orders in Council authorizing the absorptions.
[3]The Banque d'Hochelaga after absorbing the Banque Nationale adopted the name Banque Canadienne Nationale.

## Table 2

PRINCIPAL AND TOTAL ASSETS OF EACH OF THE CHARTERED BANKS OF CANADA, JUNE 30, 1933

| Bank | Current Gold and Subsidiary Coin | Dominion Notes | Deposit in Central Gold Reserves | United States and other Foreign Currencies | Due from other Banks |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Bank of Montreal | 17,933,650 | 68,244,814 | 7,000,000 | 290,099 | 51,522,539 |
| Bank of Nova Scotia | 10,029,802 | 12,215,632 | 1,250,000 | 1,907,422 | 19,783,462 |
| Bank of Toronto | 365,002 | 4,878,262 | 630,866 | 19,554 | 11,450,902 |
| Banque Provinciale du Canada | 221,964 | 374,936 | .............. | 23,367 | 3,680,200 |
| Canadian Bank of Commerce | 11,604,710 | 20,268,761 | 4,000,000 | 1,273,853 | 43,755,292 |
| Royal Bank of Canada | 8,793,480 | 23,079,188 | 3,000,000 | 17,972,856 | 50,837,687 |
| Dominion Bank | 636,725 | 3,251,539 | 400,000 | 41,243 | 10,744,647 |
| Banque Canadienne Nationale | 920,349 | 1,201,607 | 2,200,000 | 40,198 | 5,530,709 |
| Imperial Bank of Canada | 429,844 | 4,394,896 | 2,700,866 | 15,267 | 9,985,008 |
| Barclays Bank (Canada) | 12,991 | 148,885 | .............. | 1,128 | 4,885,552 |
| Totals | 50,948,517 | 138,058,520 | 21,181,732[2] | 21,584,987 | 212,175,998 |

| Bank | Securities | Loans and Discounts | | | Total Assets[3] |
|---|---|---|---|---|---|
| | | Call Loans in Canada | Current Loans in Canada[1] | Call and Current Loans outside Canada | |
| | $ | $ | $ | $ | $ |
| Bank of Montreal | 286,224,936 | 5,148,861 | 250,335,846 | 46,808,880 | 761,375,702 |
| Bank of Nova Scotia | 82,722,828 | 13,736,847 | 100,568,397 | 13,222,027 | 273,368,244 |
| Bank of Toronto | 46,211,947 | 4,490,991 | 44,795,243 | .............. | 118,430,178 |
| Banque Provinciale du Canada | 17,934,924 | 4,813,576 | 15,099,117 | .............. | 45,863,404 |
| Canadian Bank of Commerce | 168,149,845 | 27,631,289 | 218,313,506 | 35,569,053 | 570,943,398 |
| Royal Bank of Canada | 135,532,567 | 27,368,736 | 246,121,390 | 154,187,146 | 719,471,977 |
| Dominion Bank | 39,329,369 | 6,840,553 | 51,930,614 | 2,831,714 | 124,530,334 |
| Banque Canadienne Nationale | 47,166,646 | 5,644,606 | 63,699,104 | 47,489 | 135,453,649 |
| Imperial Bank of Canada | 35,959,646 | 5,703,674 | 64,558,628 | .............. | 132,132,986 |
| Barclays Bank (Canada) | 921,632 | 138,920 | 1,240,422 | .............. | 7,896,046 |
| Totals | 860,154,340 | 101,518,053 | 1,056,662,267 | 252,666,309 | 2,889,465,918 |

[1]Includes loans to Provincial Governments and to cities, towns, municipalities and school districts.
[2]$5,181,732 in gold, the remainder being Dominion notes.
[3]Includes other assets.

TABLE 3

PRINCIPAL AND TOTAL LIABILITIES OF EACH OF THE CHARTERED BANKS OF CANADA, JUNE 30, 1933

| Bank | Capital (paid up) | Rest or Reserve Fund | Notes in Circulation | Due to Dominion and to Provincial Governments | Letters of Credit Outstanding |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Bank of Montreal | 36,000,000 | 38,000,000 | 35,380,208 | 13,979,340 | 5,494,822 |
| Bank of Nova Scotia | 12,000,000 | 24,000,000 | 11,574,088 | 1,016,033 | 5,780,193 |
| Bank of Toronto | 6,000,000 | 9,000,000 | 6,296,424 | 1,430,873 | 1,004,658 |
| Banque Provinciale du Canada | 4,000,000 | 1,500,000 | 3,585,885 | 379,140 | 15,737 |
| Canadian Bank of Commerce | 30,000,000 | 30,000,000 | 25,342,919 | 5,126,123 | 11,350,393 |
| Royal Bank of Canada | 35,000,000 | 35,000,000 | 31,498,307 | 7,410,552 | 19,095,428 |
| Dominion Bank | 7,000,000 | 9,000,000 | 6,521,185 | 1,255,031 | 1,530,529 |
| Banque Canadienne Nationale | 7,000,000 | 7,000,000 | 8,867,314 | 1,868,407 | 266,758 |
| Imperial Bank of Canada | 7,000,000 | 8,000,000 | 8,388,380 | 2,504,601 | 941,883 |
| Barclays Bank (Canada) | 500,000 | 500,000 | 287,330 | 301,049 | 57,196 |
| Totals | 144,500,000 | 162,000, 000 | 137,742,040 | 35,271,149 | 45,537,597 |

| Bank | Deposits | | | Due to other Banks | Total Liabilities[1] |
|---|---|---|---|---|---|
| | Demand in Canada | Notice in Canada | Outside of Canada | | |
| | $ | $ | $ | $ | $ |
| Bank of Montreal | 150,807,684 | 389,893,020 | 70,125,477 | 9,484,325 | 759,824,543 |
| Bank of Nova Scotia | 37,955,894 | 134,131,273 | 37,608,299 | 4,705,814 | 272,668,632 |
| Bank of Toronto | 23,419,379 | 66,035,598 | .............. | 2,754,876 | 117,737,176 |
| Banque Provinciale du Canada | 4,038,675 | 31,300,961 | .............. | 59,539 | 45,487,446 |
| Canadian Bank of Commerce | 116,078,597 | 286,625,864 | 46,156,901 | 10,879,199 | 568,605,481 |
| Royal Bank of Canada | 130,568,120 | 262,894,258 | 168,175,107 | 13,709,556 | 717,653,478 |
| Dominion Bank | 29,254,121 | 61,599,156 | 1,762,740 | 3,393,633 | 124,195,968 |
| Banque Canadienne Nationale | 16,646,298 | 78,871,543 | 1,092,379 | 853,296 | 134,972,748 |
| Imperial Bank of Canada | 25,037,817 | 74,066,915 | .............. | 3,311,890 | 130,844,789 |
| Barclays Bank (Canada) | 1,241,424 | 1,511,840 | .............. | 3,406,085 | 7,888,926 |
| Totals | 535,048,009 | 1,386,930,428 | 324,920,903 | 52,558,213 | 2,879,879,187 |

[1] Includes other liabilities.

## 2. THE DOMINION NOTE ISSUE

43. As all the Provinces entering the federation had their own notes in circulation, the new Canadian government had to meet this problem. In effect it took over the various provincial note issues and substituted for them Dominion notes.

44. The first Dominion Notes Act, passed in 1868, limited the issue to \$8,000,000, of which the first \$5,000,000 required a 20 per cent reserve, and from \$5,000,000 to \$8,000,000 a 25 per cent reserve in specie. These reserve requirements do not seem high but were probably quite ample, for the notes to a large extent remained in circulation and the banks were required to keep in Dominion notes one-third of whatever cash reserve was required.

45. Various changes, which need not be narrated here, were made in the reserve requirements from time to time, usually because of the exigencies of public finance. The changes, however, were all small and did not alter the nature of the issue. The last pre-war change was made in 1903.

46. The situation in 1913 was that the Minister of Finance was required to hold a reserve of 25 per cent in gold or guaranteed debentures for the

first $30,000,000 issued; in fact the reserve was wholly specie. Over this limit all notes issued required a 100 per cent gold reserve.

47. In the war session of August, 1914, Parliament raised the partially covered issue to $50,000,000. Subsequently an issue of $16,000,000 was made against a deposit of railway securities guaranteed by the Dominion Government, as well as an uncovered issue of $10,000,000 for governmental purposes. In 1917 an emergency issue of $50,000,000 of Dominion notes was made to finance war purchases in Canada, by the British Government. The notes were secured by Imperial Treasury bills. In due course, this indebtedness was liquidated by payments from the British Treasury and all of this issue had been redeemed by 1927. No changes have since been made in the Dominion Notes Act except that by a Statute passed on 30th March, 1933, the Governor in Council was empowered to suspend the redemption in gold of Dominion notes, and an Order in Council to this effect was made on 10th April, 1933.

48. Another extremely important change in the Canadian monetary structure was effected by the passing of the Finance Act in the 1914 war session of Parliament. This Act formed part of the emergency measures adopted at the outbreak of war. In the early days of August, 1914, many "runs" upon the banks took place throughout the country, withdrawals of gold in Montreal and Toronto were particularly heavy and in general an atmosphere of incipient financial panic prevailed. On August 3rd an Order in Council was passed providing, among other things, for advances to be made to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies in the form of Dominion notes against deposits made by the banks with the Minister of Finance of such securities as might be approved by the Minister. At the session of Parliament held in the month of August, 1914, the first Finance Act was passed; it confirmed the issue of notes made under the provisions of this Order in Council and provided for authorization by proclamation of similar advances in case of war, invasion, riot or insurrection, real or apprehended, and in case of any real or apprehended financial crisis. The Act also empowered the Governor in Council, in such circumstances of emergency, by proclamation (1) to authorize the chartered banks to make payments in their own notes instead of in gold or Dominion notes and to use the facility of issuing excess notes throughout the year and not merely during the crop-moving season; (2) to suspend the redemption in gold of Dominion notes; and (3) to establish a general moratorium.

49. A proclamation in pursuance of the Act was issued on September 3, 1914, and thenceforth, throughout the war and the early post-war period, extensive use was made of the Act.

50. An Act passed in 1919 provided for the continuance in force of the proclamation made on September 3, 1914, "until two years after the conclusion of peace on termination of the present war." This explains the continued operation of the Act until 1923.

51. The provision relating to a general moratorium has never been used. The powers relating to payments by the banks in their own notes, the issue of excess circulation and the suspension of the redemption in gold of Dominion notes ceased to be exercised at various dates. But extensive use continued to be made of the power to issue Dominion notes to the banks against approved securities with the result that it was decided in 1923 to make this part of the Finance Act mechanism a feature of the normal Canadian financial system. In introducing the new legislation, Mr. Fielding, the Minister of Finance, made the following brief explanation of its purpose:—

"The Act (Finance Act) was adopted as a war measure, and no doubt was exceedingly useful in the financial operations during the war. It may be said that the war being over we no longer have any need for the

Act, but experience has shown that the Act is still required; indeed, I am inclined to think that something of the kind will have to become almost a permanent part of our financial system."

52. The Finance Act of 1923 provided that at any time when there is no proclamation in force under the authority of the Finance Act of 1914, the Minister of Finance may make advances to the chartered banks and to the savings banks to which the Quebec Savings Banks Act applies by the issue of Dominion notes upon the pledge of approved securities deposited with the Minister. The Act lists the classes of approved securities, limits the duration of advances to one year, and authorizes the Treasury Board to fix the rate of interest and make regulations with regard to advances, the terms and conditions affecting the deposit of securities and all other provisions necessary to give effect to the Act.

53. The Acts of 1914 and 1923 are consolidated in Chapter 70 of the Revised Statutes of Canada, 1927.

54. It is of interest to note that during the crisis of 1907 the then Minister of Finance made arrangements to lend the banks some $10,000,000 of Dominion notes under similar conditions to those laid down in the Finance Act.

55. From this brief survey it can be seen that while the Dominion Notes Act has developed mainly along its original lines, the position of the Dominion note issue has been substantially changed by the introduction of the Finance Act.

## 3. THE ROYAL CANADIAN MINT

56. The Ottawa Mint, established as a branch of the Royal Mint under the (Imperial) Coinage Act of 1870, was opened on January 2, 1908. In 1931 the Finance and Treasury Board Act was amended to provide for taking over the Ottawa Mint under the name of the "Royal Canadian Mint" and since December of that year the Mint has been operated as a branch of the Department of Finance.

57. Prior to 1908 coins used in Canada had been obtained from the Royal Mint in London or from The Mint, Birmingham, Ltd. In its earlier years the operations of the Mint in Canada were confined to the production of gold, silver and bronze coins for domestic circulation, of British sovereigns, and of small coins struck under contract for Newfoundland and Jamaica. The first gold coins struck were sovereigns identical with those of Great Britain except for a small "C" identifying them as having been coined in Canada. In May, 1912, the first Canadian $10 and $5 gold pieces were struck but so far the amount of Canadian gold coins minted has been very limited—only $3,480,360 in $10 pieces and $1,388,060 in $5 pieces. Gold coins have never been in great demand in Canada and none has been struck since 1919. Canadians have generally preferred Dominion notes to gold coin for use within the country, while, for export purposes, bullion or British and United States gold coin are equally suitable.

58. The refining of gold is now the principal activity of the Mint. Before 1914 small quantities of gold bullion were refined but during the war the Mint established a refinery in which nearly twenty million ounces of gold were treated for the account of the Bank of England. The growth of Canada's gold-mining industry in recent years has been particularly rapid and, since the initiation in 1931 of the policy of prohibiting the export of gold, except under licence, practically the entire gold production of the country has been refined by the Mint and later exported through the Department of Finance. During 1932, the gold received at the Mint amounted to no less than $58,491,549.

## 4. DOMINION GOVERNMENT SAVINGS BANKS

59. Prior to 1929 there were two classes of Dominion Government savings banks in Canada, the Post Office Savings Bank, under the Post Office Department, and the Dominion Government Savings Bank, attached to the Department of Finance. The former was established under the Post Office Act of 1867 (31 Vict., c. 10) in order "to enlarge the facilities now available for the deposit of small savings, to make the Post Office available for that purpose, and to give the direct security of the Dominion to every depositor for repayment of all money deposited by him together with the interest due thereon." Branches of the Government Savings Bank proper, under the authority of the Department of Finance, were established in the leading cities of Canada under the management of the Assistant Receivers General and in other places, in the provinces of Nova Scotia and New Brunswick, under managers appointed by the Governor in Council. The Government Savings Bank was amalgamated with the Post Office Savings Bank in 1929.

60. Post Office Savings Banks are established at the General Office and at over 1,300 other offices. Sums of $1 or any multiple of $1 may be deposited, but the maximum sum which may be received from any one depositor in any year, ending the 31st March, is $1,500, and the total sum which may be received to the credit of any depositor is $5,000, exclusive of interest. Withdrawals, in cash on demand, up to $50 may be made at any Savings Bank Office. The present rate of interest allowed is 2½ per cent per annum, the rate having been reduced from 3 per cent from May 1, 1933, to conform to a similar reduction in the rate of interest allowed by chartered banks on savings deposits and to a reduction of one-half of one per cent in the rates allowed by other financial institutions. It is recorded that the Post Office Savings Bank, which started operations in 1868, first paid 4 per cent, which was reduced to 3½ per cent on October 1, 1889, to 3 per cent on July 1, 1897 and to 2½ per cent (the present rate) on May 1, 1933.

61. The following figures show the total deposits in both the Postal Savings Bank and the Dominion Government Savings Bank at the end of various fiscal years from 1868 to 1933 inclusive:—

TABLE 4

| Fiscal Year | Postal Savings Bank | Dominion Government Savings Bank | Fiscal Year | Postal Savings Bank | Dominion Government Savings Bank |
|---|---|---|---|---|---|
| | $ | $ | | $ | $ |
| 1868 | 204,589 | 1,483,219 | 1915 | 39,995,406 | 14,006,158 |
| 1870 | 1,588,849 | 1,822,570 | 1916 | 40,008,418 | 13,519,855 |
| 1875 | 2,926,090 | 4,245,091 | 1917 | 42,582,479 | 13,633,610 |
| 1880 | 3,945,669 | 7,107,287 | 1918 | 41,283,479 | 12,177,283 |
| 1885 | 15,090,540 | 17,888,536 | 1919 | 41,654,960 | 11,402,098 |
| 1890 | 21,990,653 | 19,021,812 | 1920 | 31,605,594 | 10,729,218 |
| 1895 | 26,805,542 | 17,644,956 | 1921 | 29,010,619 | 10,150,189 |
| 1900 | 37,507,456 | 15,642,267 | 1922 | 24,837,181 | 9,829,653 |
| 1905 | 45,368,321 | 16,649,136 | 1923 | 22,357,268 | 9,433,839 |
| 1906 | 45,736,488 | 16,174,134 | 1924 | 25,156,449 | 9,055,091 |
| 1907 | 47,453,228 | 15,088,584 | 1925 | 24,662,060 | 8,949,073 |
| 1908 | 47,564,284 | 15,016,871 | 1926 | 24,035,669 | 8,794,870 |
| 1909 | 45,190,484 | 14,748,436 | 1927 | 23,402,337 | 8,519,706 |
| 1910 | 43,586,357 | 14,677,872 | 1928 | 23,463,210 | 7,640,566 |
| 1911 | 43,330,579 | 14,673,752 | 1929 | 28,375,770 | [2] |
| 1912 | 43,563,764 | 14,655,564 | 1930 | 26,086,036 | [2] |
| 1913 | 42,728,942 | 14,411,541 | 1931 | 24,750,227 | [2] |
| 1914 | 41,591,286 | 13,976,162 | 1932 | 23,919,677 | [2] |
| | | | 1933 | 23,920,915 | [2] |

[2]Included in Post Office Savings Bank.

## 5. PROVINCIAL GOVERNMENT SAVINGS OFFICES

62. Institutions for the deposit of savings are operated by the Provincial Governments of Ontario and Alberta, while a similar institution was in operation in Manitoba from 1924 to 1932 when the depositors' accounts were taken over by the chartered banks.

63. ONTARIO.—In the session of 1921, the Legislature of Ontario authorized the establishment of the Province of Ontario Savings Office, and in March, 1922, the first branches were opened. The funds received from this source are used almost exclusively to finance farm loans under the Agricultural Development Act. Interest formerly at the rate of 3 per cent, but since May 1, 1933, at the rate of 2½ per cent per annum, compounded half yearly, is paid on all accounts. The deposits are all repayable on demand. Total deposits on October 31, 1932, were $23,709,820 and the number of depositors at that date was over 90,000. Seventeen branches are in operation throughout the province.

64. ALBERTA.—In Alberta the Provincial Treasury receives savings deposits and issues demand savings certificates bearing interest at 4 per cent, or term certificates for one, two or three years, in denominations of $25 and upwards, bearing interest at 5 per cent. The total amount in savings certificates on September 30, 1932, was $8,579,917, made up of $8,029,651 in demand certificates and $550,266 in term certificates.

## 6. QUEBEC SAVINGS BANKS

65. There are two institutions operating under the Quebec Savings Banks Act (R.S.C. 1927, Chap. 14) viz: The Montreal City and District Savings Bank and La Caisse d'Economie de Notre Dame de Québec. The former was founded in 1846 and its present charter dates from 1871. On June 30, 1933, it had a paid-up capital and reserve fund of $4,200,000, savings deposits of $55,075,793, and total assets of $61,602,309, these assets including over $44,000,000 of Dominion, Provincial and Municipal securities. La Caisse d'Economie de Notre Dame de Québec, founded in 1848 under the auspices of the St. Vincent de Paul Society, was incorporated by Act of the Canadian Legislature in 1855 and given a Dominion charter by 34 Vict., Chap. 7. On June 30, 1933, it had a paid-up capital and reserve fund of $2,250,000, savings deposits of $13,049,237 and total assets of $16,601,565.

66. These banks occupy a special position in the Canadian financial structure. To some extent they have been brought under similar restrictions to those applying to the chartered banks. For instance, the "shareholders' audit" was introduced into the Quebec Savings Banks Act in 1913 at the time it was embodied in the Bank Act. Both Acts are subject to decennial revision. On the other hand the shares do not entail double liability and the right of note issue has never been conferred. As in the case of the chartered banks, these banks have not been allowed to invest in real estate, except for their own use; but their ordinary "commercial banking" business is so small that some two-thirds of their funds have been invested in government and municipal securities. They are essentially "savings" banks.

## 7. CAISSES POPULAIRES (CO-OPERATIVE PEOPLE'S BANKS)

67. The first successful effort to introduce the principle of the small bank for rural purposes in Canada was made in the Province of Quebec. The late Commander Desjardins, a resident of the town of Levis, after a careful study of the systems of small banks in operation in Europe, decided to introduce into Quebec a system of "People's Banks," the "Caisses Populaires," after the model

of the "People's Banks" in Italy. The first one was organized on 6th December, 1900, in the town of Levis. The "Caisses Populaires" are organized and operate under the Co-operative Syndicates' Act of Quebec, R.S.P.Q., 1925, Vol. 3, chap. 254.

68. The "Caisses Populaires" are not strictly rural institutions, that is to say, the membership is not limited to farmers, but they are conducted more largely in the interest of farmers than in that of any other class, because of the high percentage of farmers composing the membership. Their transactions are those of a mutual company, owing to the fact that they generally lend only to their shareholders, who have the right of making deposits over and above the amount of their shares. While they do not specially aim at doing mortgage business, loans are made on first mortgage on immovable property. In addition, they make loans to their members on personal security.

69. Statistics show that the rates of interest paid on deposits by the "Caisses Populaires" vary from a minimum of 3 per cent to a maximum of 5 per cent, although 3 and 4 per cent appear to be the more common rates. We understand that the interest rate charged borrowers varies from 5 per cent—to 8 per cent—ordinarily 6 per cent or 7 per cent—according to the duration and amount of the loan and the borrower's credit standing. The mortgage loans made by these banks are generally for ten years, or less. In commenting upon the shortness of this period compared with the long term mortgages prevailing in Europe, a representative of the "Caisses Populaires" explained before the Commission that the reason for this was "parce que nous considérons ici au Canada, que nous vivons plus vite qu'en Europe."

70. The following statistical data, as of 30th June, 1933, have been furnished relative to these institutions:

| | |
|---|---|
| Number of institutions.. | 192 |
| " " members.. | 41,913 |
| " " depositors.. | 41,156 |
| " " borrowers.. | 11,767 |

| | No. | Amount | Percentage of Amount |
|---|---|---|---|
| Loans: | | | |
| On promissory notes.. | 9,484 | $2,103,998 | 25·03 |
| On mortgages.. | 2,158 | 3,373,199 | 40·14 |
| On bonds.. | 506 | 2,926,182 | 34·83 |
| | 12,148 | $8,403,379 | 100·00 |

| | |
|---|---|
| Total Assets.. | $9,210,107 |
| Capital Stock.. | 1,649,568 |
| Deposits.. | 6,211,278 |

## 8. STOCK EXCHANGES

71. In the year 1874 under a charter of the Province of Quebec "a body politic and corporate by the name of the Montreal Stock Exchange" was established.

The following table gives the date of incorporation and present membership of all the existing Canadian stock exchanges:—

| | Date of Incorporation | Present Membership |
|---|---|---|
| Montreal Stock Exchange.. | 1874 | 68 |
| Toronto Stock Exchange.. | 1878 | 58 |
| Winnipeg Stock Exchange.. | 1903 | 52 (1) |
| Vancouver Stock Exchange.. | 1907 | 37 |
| Standard Stock & Mining Exchange of Toronto.. | 1908 | 43 |
| Montreal Curb Market.. | 1926 | 82 |
| Calgary Stock Exchange.. | 1914 | 85 (2) |

(1) Including associate members and registered non-members.
(2) 26 active and 59 inactive.

The annual transactions on the Montreal and Toronto Stock Exchanges are shown in the following table.

TABLE 5

RECORD OF STOCK EXCHANGE TRANSACTIONS, 1908-1933

(Number of Shares)

| | Toronto Stock Exchange | | Montreal Stock Exchange | |
|---|---|---|---|---|
| 1908 | 610,062 | | 1,475,105 | |
| 1909 | 1,443,346 | | 3,339,747 | |
| 1910 | 940,544 | | 2,137,426 | |
| 1911 | 914,553 | | 2,255,158 | |
| 1912 | 1,176,509 | | 2,349,630 | |
| 1913 | 935,963 | | 2,039,769 | |
| 1914 | 709,162 | (7 months) | 1,261,739 | (7 months) |
| 1915 | 592,024 | (11 months) | 1,570,258 | (11½ months) |
| 1916 | 1,299,798 | | 3,396,069 | |
| 1917 | 512,890 | | 1,130,799 | (11½ months) |
| 1918 | 341,783 | | 1,077,464 | |
| 1919 | 779,148 | | 4,060,344 | |
| 1920 | 670,064 | | 4,208,975 | |
| 1921 | 548,017 | | 2,107,426 | |
| 1922 | 1,214,543 | | 2,997,527 | |
| 1923 | 1,025,142 | | 2,539,910 | |
| 1924 | 907,871 | | 3,072,366 | |
| 1925 | 1,999,218 | | 4,601,857 | |
| 1926 | 2,472,167 | | 7,081,150 | |
| 1927 | 4,663,042 | | 10,706,614 | |
| 1928 | 6,021,087 | | 20,490,003 | |
| 1929 | 10,729,365 | | 25,739,261 | |
| 1930 | 6,638,594 | | 15,563,489 | |
| 1931 | 2,973,358 | | 5,309,270 | |
| 1932 | *3,192,951 | | 2,864,784 | |
| 1933 | *9,213,426 | (first 8 months) | 6,195,483 | (first 8 months) |

* Includes Curb Sales.

## 9. INVESTMENT BANKERS

72. The Canadian bond business may be said to have commenced in 1883-84 when several of the firms now engaged in the underwriting and distributing of securities were founded. Their early activities were confined largely to dealings in government and municipal bonds. With the growth of corporate enterprise in Canada their operations were extended to include capital issues of companies engaged in transportation, in public utilities and in manufacturing. The beginning of this century witnessed a substantial increase in the number of bond dealers and in the variety and amount of their offerings to the public.

73. London was the principal market for early Canadian borrowings and the bond dealers established offices and connections there. In the period immediately prior to the War—one of rapid development—more than three-quarters of all Canadian issues were placed in Great Britain. The Great War cut off this source of supply but did not diminish the demand for capital funds. Canada turned to the United States, and in 1916 some sixty-five per cent of Canadian bond issues were floated in that country. When the United States entered the War, Canada was forced to rely almost entirely upon her own resources and absorbed the large issues made by the Dominion Government in 1917, 1918 and 1919. In connection with the flotation of Canada's first War Loans and particularly in the great Victory Loan campaigns warm tribute must be paid to the notable contributions made by investment bankers. A table included as an Appendix shows the history of Canadian financing since 1910.

74. In order to meet these growing demands for home financing many new houses were established, and in 1916 the Bond Dealers' Association of Canada was formed with a membership of thirty-two firms, mostly operating in Montreal and Toronto. By 1919 the number was 72. In 1921 it was 103 with 17 branch office memberships. At present it is 101 with 18 branch memberships and operates under the name of the Investment Bankers' Association of Canada.

## 10. LOAN, MORTGAGE AND TRUST COMPANIES

75. The lending of money on the security of real estate, such as is now carried on by loan and trust companies, was begun in Canada by the Lambton Loan and Investment Company, established in 1844. In the following year, the Montreal Building Society was incorporated. In order to promote the development of such institutions in Upper Canada, an Act was passed in 1846, followed by similar Acts of the Province of New Brunswick in 1847, and of the Province of Nova Scotia in 1849. These early companies were termed building societies; their activities consisted mainly in the lending of money upon the security of real estate and other forms of loans to their members, the latter assuming no liability should the affairs of the society prove unprofitable. In addition to these operations, such companies were authorized by an Act of 1859 to "borrow money to a limited extent." Later, the Building Societies Act of 1874 authorized these organizations to receive money on deposit and to issue debentures, subject to certain restrictions as to amounts received on deposit.

76. The number of loan and savings societies in operation and making statutory returns at the time of Confederation was 19, with an aggregate paid-up capital of $2,110,403 and deposits of $577,299. The number of companies and total volume of business rapidly increased until, in 1899, 102 companies (including trust companies) making returns showed capital stock paid up of $47,337,544, reserve funds of $9,923,728 and deposits of $19,466,676; total liabilities had increased from $3,233,985 to $148,143,496. By 1913 the number of companies had declined, through amalgamations and absorptions, to 74 (including 16 trust companies) with a combined paid-up capital of $68,091,042, reserves of $35,959,342, deposits of $32,681,806 and total liabilities of $478,658,228. The progress of these loan companies is evidenced by the increase in the book value of their assets which rose from $188,637,298 in 1922 to $211,195,794 in 1932.

77. The total assets owned or held for administration by the trust companies increased from $805,689,070 in 1922 to $2,506,260,979 in 1932. The latter figures included $2,281,001,620 of "estates, trust and agency funds."

## 11. RURAL CREDIT INSTITUTIONS

78. British Columbia was the first Province in Canada to pass legislation facilitating agricultural credit. The Agricultural Credit Act enacted in 1898 was based on the German Raiffeisen system, but no loans were made under its provisions. In 1915 another Agricultural Credit Act was passed in that province to grant all forms of credit, short, intermediate and long term, and the Land Settlement Development Act of 1917 provided for additional long term credit facilities. In Manitoba legislation was passed in 1917 to provide both long and short term credit. In the same year the Treasurer of the Province of Ontario was authorized to lend money to townships which in turn might relend it to farmers. In 1921 Acts similar to those of Manitoba were passed by the Province of Ontario to supply long and short term agricultural credit, the necessary funds to be obtained through the Province of Ontario Savings Office. In Saskatchewan a similar long term credit project was adopted in 1917. In the same year Alberta passed legislation to provide both short and long term loans; operations were, however, confined to short term loans. From 1912 until 1925 the Government of Nova Scotia made first mortgage loans under the supervision of the Government Farm Inspector. In New Brunswick farm loans have been made through the Farm Settlement Board established in 1912 with the object of helping new farmers to settle on the land rather than to assist established farmers.

79. The majority of the provincial long term lending agencies have been superseded by the establishment of the Canadian Farm Loan Board in 1929, following legislation by the Dominion Parliament in 1927. The nature and extent of the operations of the principal rural credit organizations outlined above will be dealt with in another part of this report.

## 12. INSURANCE COMPANIES

80. Fire insurance in Canada was first carried on by agencies of British fire insurance companies. The first of these was an agency of the Phoenix Fire Office of London, which started business in Montreal in 1804. As a result of the growth of insurance business, branch offices were soon established and local managers appointed, charged with the direction of their Canadian business. Although in the early days Canada did not prove a lucrative field for fire insurance companies, the improvement in the class of building, the gradual elimination of wood structures and the increased use of less inflammable materials coupled with the installation of fire appliances and safety devices reduced the fire risks and brought Canadian companies into this field of business. The amount of fire insurance in force at December 31, 1932, was $9,301,747,991, and the premiums received in 1932 amounted to $46,911,929.

81. Like fire insurance, life insurance was also introduced into Canada by British companies. Among the first to transact such business in Canada was the Scottish Amicable Company in 1846, and the Standard Life Assurance Company in 1847. The first Dominion Insurance Act was passed in 1868 and prohibited the writing of life insurance by any company (with unimportant exceptions) not licensed by the Minister of Finance. Canadian life insurance legislation has been influenced both by British and United States practices. It may be said to stand mid-way between the " freedom and publicity" legislation of England and the restrictive legislation of the United States. The net amount of life insurance in force at December 31, 1932, was $6,471,588,455 and the net premiums received in 1932 amounted to $216,133,010.

82. In addition to life and fire insurance companies of which the former are by far the most important financially, there are certain other branches of insurance in Canada. Compared with the other organizations they do not occupy an outstanding place in the financial system of Canada.

## 13. PENNY BANKS

83. Provision is made by the Penny Bank Act (R.S.C. 1927, chap. 13) for the institution of banks designed to encourage small savings by school children, but their facilities are not confined to children. The only bank of this kind in operation is the Penny Bank of Ontario whose statement for the year ended June 30, 1932, shows the following position:—

| | |
|---|---|
| Assets | $1,384,695 11 |
| Liabilities: | |
| Deposits and Accrued Interest | 1,356,354 79 |
| Surplus (Guarantee Fund and Interest earned) | 28,340 32 |

There are also other similar organizations throughout Canada of a less formal character.

# CHAPTER III

## A SHORT ACCOUNT OF THE OPERATION OF THE CANADIAN FINANCIAL SYSTEM

84. In the preceding chapter we have outlined the historical development of the financial institutions of Canada. In the present chapter we propose to describe briefly the methods of operation of some of these institutions.

### 1. THE CHARTERED BANKS

85. *Branch Banking.*—At the end of 1932 the ten Canadian chartered banks had 3,158 branches in Canada, distributed as shown in the following table:—

Table 6

NUMBER OF BRANCHES OF CHARTERED BANKS IN CANADA AT END OF 1932

| Name of Bank | Prince Edward Island | Nova Scotia | New Brunswick | Yukon | Quebec | Ontario | Manitoba | Saskatchewan | Alberta | British Columbia | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank of Montreal ... | 1 | 14 | 13 | 2 | 120 | 216 | 36 | 51 | 55 | 52 | 560 |
| Bank of Nova Scotia | 9 | 36 | 37 | ...... | 23 | 134 | 7 | 22 | 9 | 6 | 283 |
| Bank of Toronto..... | ........ | ........ | ........ | ...... | 15 | 104 | 12 | 27 | 13 | 9 | 180 |
| Banque Provinciale du Canada...... | 4 | ........ | 13 | ...... | 107 | 14 | ...... | ........ | ...... | ........ | 138 |
| Canadian Bank of Commerce...... | 7 | 19 | 6 | 2 | 67 | 300 | 43 | 91 | 67 | 65 | 667 |
| Royal Bank of Canada ............ | 6 | 62 | 22 | ...... | 82 | 253 | 72 | 118 | 68 | 55 | 738 |
| Dominion Bank..... | ........ | ........ | 1 | ...... | 8 | 99 | 12 | 4 | 5 | 4 | 133 |
| Banque Canadienne Nationale....... | ........ | ........ | ........ | ...... | 213 | 15 | 8 | 7 | 6 | ........ | 249 |
| Imperial Bank of Canada ......... | ........ | ........ | ........ | ...... | 4 | 122 | 8 | 39 | 23 | 12 | 208 |
| Barclays Bank (Canada)........ | ........ | ........ | ........ | ...... | 1 | 1 | ...... | ........ | ...... | ........ | 2 |
| | 27 | 131 | 92 | 4 | 640 | 1,258 | 198 | 359 | 246 | 203 | 3,158 |

86. The following account of the operation of the branch banks is based mainly upon the memorandum laid before us by the Canadian Bankers' Association.

87. The Canadian branch bank is organized in much the same manner as the British branch bank. In a large city branch, the staff may consist of one hundred persons or more; in a small country branch the staff may consist of three or four, or even of two persons.

88. Before being appointed to the branch of which he is in charge, the manager has acquired a varied banking experience in other parts of the Dominion or abroad; and this is his safeguard, and a safeguard to the community that he serves, against the risk, which would otherwise be present, that he might take a purely local view of local problems.

89. All loans are made at the branches. Branch managers have authority to make loans up to certain maxima, without the need of reference to higher authority for authorization of these loans. These maxima do not follow set

rules, but are fixed for the branch managers individually. The maximum up to which a particular manager may loan depends upon his experience and judgment, and upon the nature of the collateral offered for the loan.

90. Application for a loan beyond the maximum set for him obliges the branch manager to refer the application to the district supervisor under whom he operates, or to head office. His reference is accompanied by statements as to the customer's position, as to the particulars of collateral offered, and such other information as is necessary to determine the quality of the risk.

91. If the deposits of a branch should be in excess of the loans which it has made, together with the amount of cash required by that branch, the excess of deposits is credited to head office; and the funds are used at other branches where the loan requirements exceed the deposits; or else they are invested by head office in bonds, or otherwise employed to the best advantage; credit for the use of such funds being given to the branch from which they are drawn.

92. If the loans made by a branch, together with the amount of cash required in the till, exceed the deposits locally received by that branch, the necessary funds are drawn from other branches by head office, and made available to the branch requiring them; and that branch is accordingly debited for the use of the funds so borrowed.

93. Periodically the branch manager makes special reports on all doubtful loans, and submits with these reports his own estimate as to how much of the loans concerned may be recoverable. These reports are reviewed by head office and the doubtful loans are written off to bad debts, or adequate appropriations set up.

94. Each branch is inspected at least once a year and at irregular intervals by the bank's inspectors; and annual inspection reports are placed in the hands of the directors of the bank. Bank premises and equipment are under the supervision of a special department at head office.

95. Promotion and transfer of members of the staff are in charge of a staff department at the head office, with the object of ensuring that so far as possible the best men become the responsible executives of the Canadian banking system.

96. *Deposits.*—The deposits in the Canadian banks are broadly divided into two categories, namely, current accounts and savings accounts.

97. The current account is also called the demand deposit account, since sums at its credit are withdrawable on demand. The bulk of the public, commercial and financial business of the country is transacted by means of cheques drawn on current accounts.

98. The savings accounts are also called notice deposit accounts, as the sums at credit in these accounts are legally withdrawable only after a certain period, usually fifteen days, on notice given by the depositor. In practice, however, no bank insists upon this legal right of notice. Savings accounts serve three distinct purposes. In the first place they represent the accumulations of small savers who do not enter the investment market; secondly, they are utilized by those who are accumulating funds to invest or are awaiting a favourable moment for investment; and, lastly, they constitute a large proportion of the chequeing accounts of individuals. Owing to the nature of these deposits, their rate of turnover is much slower than that of current accounts. It has been estimated that the rate of turnover of the latter is roughly fifty times as great as that of the former. Interest is paid upon savings accounts at a rate which is a matter of common policy on the part of the banks. The rate was recently (1st May, 1933) reduced to $2\frac{1}{2}$ per cent from 3 per cent at which it had stood for some thirty years. In addition to this, special rates are paid upon certain deposits under agreement with the depositor.

99. *Reserves.*—The Canadian Bank Act, in contrast to legislation in the United States and South America, does not provide for a specific or minimum cash reserve; it does require, however, that 40 per cent of the " cash reserves " of the Canadian banks shall be in Dominion notes. The general practice of the Canadian banks is to classify their reserves in two categories: (1) cash assets, and (2) quickly realizable assets, also called " secondary reserves."

100. (1) The " cash assets " include, (*a*) gold and subsidiary coin, (*b*) Dominion notes, (*c*) United States and other foreign currencies, (*d*) notes of other banks, (*e*) cheques on other banks, (*f*) balances due by banks and banking correspondents elsewhere than in Canada, (*g*) balances due by other banks in Canada.

101. (2) The " quickly realizable assets " include the " cash assets " enumerated above, and also, (*a*) deposits in the Central Gold Reserves, (*b*) Dominion and Provincial Government securities, (*c*) Canadian municipal securities and British, Foreign and Colonial public securities other than Canadian, (*d*) railway and other bonds, debentures and stocks, (*e*) call and short (not exceeding 30 days) loans in Canada on stocks, debentures and bonds and other securities, (*f*) call and short (not exceeding 30 days) loans elsewhere than in Canada on stocks, debentures and bonds and other securities.

102. The above mentioned distinction as between " cash assets " and " quickly realizable assets " is not uniform as among various Canadian banks, but it may be said that the " quickly realizable assets " sometimes called " liquid assets " include the same items in the case of all the banks.

103. The " cash reserves " of the banks bring in no income, and their " cash assets " are productive of very small revenue. The " quickly realizable assets " being represented mostly by short term high grade bonds, yield low rates of interest in comparison with other types of investments in Canada. The " cash " and " quick " assets of the Canadian banks apply to their liabilities both in Canada and abroad, and no segregation can be made between the assets held against Canadian or against foreign deposit liabilities.

104. The classification of assets adopted in Canada is thus seen to differ from that followed in other countries and depends upon a variety of considerations. In countries where central banks are in operation, the determining factor of liquidity would probably be the readiness of the central institution to purchase, advance against, or rediscount certain securities or bills of exchange. The present practice has developed in Canada as the result of experience as to the marketability of certain securities both in Canada and abroad coupled with the rules established by the Treasury Board in regard to advances under the Finance Act.

105. It will be seen that these observations apply to the reserves of individual banks and not to the reserves of the banking system considered as a whole.

106. *Current Loans.*—These loans are generally made under " lines of credit " authorized by the banks. Under this system the borrower estimates his probable credit requirements for the ensuing year and then applies to his bank for a " line " of that amount. From time to time during the year, as need arises, advances within the authorized credit are made. The " line of credit " arrangement does not bind the banker to lend the full amount of the credit. If conditions change during the currency of the credit the branch manager may refuse to lend to the full extent of the " line." On the other hand the customer is not bound to borrow to the extent of his authorized credit.

107. The rate of interest charged on good commercial loans has generally been 6 per cent. On small loans and in branches where the volume of business is small the rate of interest was 8, 9, or even 10 per cent. The nominal rate of interest has frequently been increased through the process of discounting notes or of compounding the interest at intervals of three or four months.

108. The general rate now charged in western farming areas is 7 per cent, reductions having been made as from 1st May, 1933, when the rate upon deposits was reduced. In the older settled sections of the east, agricultural rates have been generally from ½ to 1 per cent lower than in the west.

109. *Investments and Securities.*—Unlike current loans, which are made entirely at branches, investments are administered by the head office. The policy of the banks has been to invest in the highest grade of securities, and preferably in short term securities. The investment operations of the banks are carried on in a highly competitive field in which other institutions, such as insurance companies, the trust, loan and mortgage companies, as well as the investing public, operate.

110. The Canadian chartered banks have entered the field of "Investment Banking," buying and selling securities on their own account. They "execute orders for clients to buy or sell securities, for which a moderate commission is charged." They underwrite or participate in syndicates formed to sell securities to the public. "For the most part these issues are government and municipal bonds, and a few corporate issues of the very highest grade." These quotations are from the Canadian Bankers' Association memorandum submitted to us.

111. *Money Market.*—There is no money market in Canada such as exists in London and New York where highly specialized financial houses undertake the accepting and discounting of foreign bills of exchange. In London the joint stock banks lend money on call to bill brokers and acceptance houses and if these loans are called by the banks the borrowers have recourse to the Bank of England. In Canada the chartered banks make "call loans" upon the security of bonds or stocks to investment bankers, stock brokers and individuals. In times of general stringency affecting all the Canadian banks recourse must be had to outside sources, and if such are not found it may become difficult to obtain prompt repayment of such loans.

112. *Financing External Trade.*—In Canada there is no market outside the banks for bills of exchange. Again to quote the memorandum of the Canadian Bankers' Association, "the general practice in the case of export trade is for the exporter, whether of cereal products or of any other commodity, either to draw upon the consignee and sell his bill outright to the bank (in which case it will be forwarded to London or New York, or as the case may be, for collection at maturity, or for negotiation), or to borrow against the security of the bill of exchange which, in either case, comes into the possession of the bank. Or again, the arrangement may be that the consignee abroad opens a credit with the Canadian bank in favour of the Canadian exporter, and in this last-named instance also, the exporter secures payment from the bank after consigning his goods, upon surrender of the bill and documents.

113. "Conversely, in the case of payment for imports into Canada, the importer may purchase from the Canadian bank a draft in favour of the consignor abroad; or he may borrow on the security of the goods imported, or upon his general credit and remit; or, by arrangement between the Canadian consignee and the consignor abroad, a credit may be established in the Canadian bank in favour of the consignor, who will in that case draw upon the Canadian bank (either at sight, or with a specified time limit) and either sell the draft with documents to a branch of the bank abroad, or sell it to his own bank, and leave the final settlement as between his own bank and the bank in Canada.

114. "It should be added that, by means of its branches [or connections] abroad, the Canadian bank is endeavouring at all times to foster Canadian trade; and that, through these branches and otherwise, it has assembled and keeps up to date a large body of credit information, which is at the disposal of Canadian exporters."

115. We insert here a table of the foreign branches of the Canadian banks.

## Table 7

NUMBER OF BRANCHES OF CHARTERED BANKS OUTSIDE OF CANADA AT END OF 1932

| Name of Bank | United Kingdom | United States | Newfoundland[1] | West Indies[2] | European Countries | South and Central America | Total |
|---|---|---|---|---|---|---|---|
| Bank of Montreal | 2 | 3 | 5 | .......... | 1 | 2 | 13 |
| Bank of Nova Scotia | 1 | 3 | 12 | 23 | .......... | .......... | 39 |
| Canadian Bank of Commerce | 1 | 5 | 3 | 4 | .......... | 2 | 15 |
| Royal Bank of Canada | 2 | 1 | 5 | 52 | 2 | 29 | 91 |
| Dominion Bank | 1 | 1 | .......... | .......... | .......... | .......... | 2 |
| Banque Canadienne Nationale | .......... | .......... | .......... | .......... | 1 | .......... | 1 |
| Total | 7 | 13 | 25 | 79 | 4 | 33 | 161 |

[1] Including St. Pierre and Miquelon.
[2] Including Cuba and Puerto Rico.

116. *The Foreign Exchange Market.*—The foreign exchange market in Canada is chiefly concentrated in Montreal and Toronto. Almost the only dealers are the chartered banks, but in the former city there are six brokers, while in the latter there are two, who act chiefly as intermediaries between banks for a commission. Each bank has a foreign exchange department, in which are concentrated the supply of, and demand for, foreign currencies. As far as possible each bank sets buying orders against selling orders, and then enters the local market in order to sell or to buy according as they are over or short. If the local market cannot absorb all the orders, and it seldom can, then recourse is usually had to the wider markets of New York and London, but chiefly New York.

117. The total turnover, including all usances and forward exchange, varies widely from day to day and from year to year, but, from the estimates supplied to us, it has in recent years amounted to a rough daily average of £350,000 sterling and 4,000,000 United States dollars. Owing to the "marrying" operations carried out in the respective foreign exchange departments of the banks, the turnover dealt with in open market (local or foreign) is reduced in normal times to about 50 per cent of the total sterling turnover, and to about 30 per cent of the United States dollar turnover. In the present conditions of rate instability, the banks are naturally averse from taking a position and the proportion dealt with in open market is larger, namely about 75 per cent for sterling, and 50 per cent for United States dollars. The Canadian market is narrower and less active in sterling than in United States dollars, partly because in general the supply of sterling is greater than the demand and often the banks are all sellers of sterling whereas they are usually dealing both ways in United States dollars. The common practice, therefore, is to sell sterling for United States dollars and sell the resultant New York dollars for Canadian funds over the New York-Montreal exchange.

118. The London and Montreal markets are only open together for some three or four hours daily, while New York and Montreal are in connection throughout the whole day. Partly in consequence of this difference in time, but chiefly because of the narrow local market for sterling, it is hardly ever possible for arbitrage transactions to be carried out on the same day which involve a three cornered transaction including London, Montreal, and New York. On the other hand, it is to be observed that the very close touch (telephonic as well as telegraphic) existing between Canada and New York, and, to a less degree, London, does enable the Canadian banks to operate at finer rates than would be possible if the local market only were available.

119. Because of Canada's large area, the remoter parts do not necessarily obtain their rates at the same time as they are quoted in the financial centres. Branches in the large centres are in continuous touch with Montreal and Toronto, and rates are advised as occasion demands. Medium sized branches receive rates by telegraph or telephone from the foreign exchange department daily, and more frequently if market variations and local conditions require it. Small branches receive daily, or otherwise as mail facilities permit, a rate bulletin, which is mailed from distributing centres strategically situated throughout the Dominion. The distributing centres receive the rates by telegraph. The spread between the buying and selling rates in all these cases depends to a large extent upon the state of the market at the time when the rates are sent. The spread in the case of those branches to which a mail bulletin is sent, is usually wider than that in other classes because of the greater risk involved of the rate becoming adverse before transactions can be completed.

120. There is keen competition between the banks for short term documentary produce and grain bills, which are purchased on the basis of the London and New York market rates of discount, a concession being made in some cases in anticipation of the bills being paid under rebate.

121. In the present period of exchange instability the banks encourage the use of the forward exchange market which they are enabled to do because of the close touch maintained with London and New York.

122. *Competition.*—We have now completed our survey of "such trade generally as appertains to the business of banking." (Bank Act, Section 75, (1) (*d*)). The banks state that there is a high degree of competition among them in the services rendered by branches to depositors and borrowers and in investment and foreign exchange transactions. If a would-be borrower fails to receive accommodation from one bank he may go to another. Even between branches of the same bank a degree of competition exists. Each branch manager endeavours to run his branch as successfully and profitably as possible. Only in the field of interest rates have we found some evidence of common policy.

123. *The Canadian Bankers' Association* is the recognized medium for correlated measures on the part of the banks. The origin of this organization, which has no exact counterpart in other banking systems has already been described in the preceding chapter. Its declared objects were to "watch legislation and court decisions relating to banking, to protect the interest of the contributories to the bank circulation redemption fund, and generally to guard the interests of the chartered banks; also to promote the education and efficiency of bank officers by various means." (*Canadian Banking* by Sir Edmund Walker, page 31). In the third year of the Association its Journal, now well known, issued its first number.

124. The Association is chiefly concerned with the note circulation of the banks, the organization and operation of clearing houses. There is no attempt to formulate what in Great Britain or the United States would be called "monetary" or "banking policy." Each bank is autonomous and determines its own policy, but policies and other matters are discussed informally by the chief executive officers of the banks at meetings of the Association.

125. *Note Issue.*—Every chartered bank is permitted under the Bank Act (Sections 61 to 74) to issue its own notes in denominations of $5 and multiples, to the limit of its paid-up capital, plus the amount of its deposits of gold and Dominion notes in the central gold reserves. These reserves are held in Montreal, and each bank, as occasion requires, may keep on deposit an amount in excess of its circulation requirements, so that bank notes may be issued on demand within the provisions of the law. The Dominion imposes a tax of 1 per cent on the amount of notes in circulation up to the amount of the paid-up capital of each bank.

126. The central gold reserves are administered by a board of trustees, four in number. Three are appointed by the Canadian Bankers' Association, with the approval of the Minister of Finance, and one by the Minister himself. During the crop-moving season, i.e., from the beginning of September to the end of February, the banks may issue additional notes up to 15 per cent of their unimpaired paid-up capital and reserves. Interest at 5 per cent per annum is charged by the Government upon the amount of notes so issued. As the banks have recently been able to secure Dominion notes under the Finance Act at a lower rate than 5 per cent, and to deposit them in the central gold reserves, the excess circulation provision has been availed of only to a small extent. The limit of the amount of notes that may be circulated by any bank is therefore dependent upon the paid-up capital of the bank, the amount of gold and Dominion notes available for deposit in the central gold reserves, and, in addition, the excess seasonal issue referred to.

127. Bank notes are not legal tender; they constitute, however, the greater part of paper currency in denominations of five dollars and over in use in Canada. Dominion one and two dollar bills and a few twenty-five cent notes provide the paper currency of smaller denominations. The following Table shows the paid-up capital of the banks and the amount of notes in circulation at the dates indicated—

## Table 8

STATEMENT OF BANK NOTES IN CIRCULATION

| — | Bank Notes in circulation | Paid-up Capital | Deposits in Central Gold Reserves | Excess issue, if any, under Sec. 61, ss. 16 (15% of combined paid up capital and reserve) |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| June, 1923 | 174,658,110 | 125,361,251 | 57,652,533 | |
| Dec. | 180,246,825 | 123,409,130 | 65,602,533 | 2,308,027 |
| June, 1924 | 171,396,223 | 121,909,560 | 62,252,533 | |
| Dec. | 165,672,143 | 121,909,560 | 60,702,533 | 490,958 |
| June, 1925 | 163,146,336 | 120,164,660 | 55,902,533 | |
| Dec. | 173,891,566 | 116,164,660 | 71,060,332 | 334,148 |
| June, 1926 | 166,371,587 | 116,164,660 | 63,310,332 | |
| Dec. | 175,083,324 | 117,164,660 | 68,810,332 | 463,222 |
| June, 1927 | 177,611,562 | 122,392,510 | 67,420,332 | |
| Dec. | 182,747,049 | 122,764,660 | 74,045,332 | 417,028 |
| June, 1928 | 183,379,487 | 122,764,660 | 71,030,866 | |
| Dec. | 186,086,685 | 123,667,285 | 78,730,866 | 870,622 |
| June, 1929 | 186,870,718 | 139,127,855 | 60,530,866 | |
| Dec. | 175,496,699 | 142,901,350 | 56,080,866 | 460,853 |
| June, 1930 | 165,953,624 | 144,717,301 | 46,330,866 | |
| Dec. | 148,017,056 | 145,024,560 | 32,580,866 | |
| June, 1931 | 142,558,937 | 144,500,000 | 27,730,866 | |
| Dec. | 141,013,382 | 144,500,000 | 25,731,732 | 319,089 |
| June, 1932 | 136,295,915 | 144,500,000 | 22,881,732 | |
| Dec. | 127,074,824 | 144,500,000 | 19,881,732 | |
| June, 1933 | 137,742,040 | 144,500,000 | 21,181,732 | |

128. The bank note issue is closely controlled by the Canadian Bankers' Association. The printing, delivery and destruction of bank notes, as well as the destruction of plates, is under its supervision.

129. Bank notes constitute a first lien on the assets of the bank. The banks contribute 5 per cent of their average annual circulation to the bank circulation redemption fund. This fund forms part of the Consolidated Revenue Fund of the Dominion Government, and the banks receive 3 per cent per annum on the amounts contributed. The fund is available to make good any losses which holders of the notes of a failed bank might otherwise sustain.

130. *Bank Clearings.*—The Canadian banks have developed a highly efficient clearing system through the establishment of clearing houses and the organization of the central clearing fund.

131. Under the regulations of the Canadian Bankers' Association, as approved by the Treasury Board, clearing houses have been set up at thirty-two points, as follows:—

In Nova Scotia—Halifax.
In New Brunswick—Moncton and Saint John.
In Quebec—Montreal, Quebec and Sherbrooke.
In Ontario—Brantford, Chatham, Fort William, Hamilton, Kingston, Kitchener, London, Ottawa, Peterborough, Sarnia, Sudbury, Toronto and Windsor.
In Manitoba—Brandon and Winnipeg.
In Saskatchewan—Prince Albert, Regina, Saskatoon and Moose Jaw.
In Alberta—Calgary, Edmonton, Lethbridge and Medicine Hat.
In British Columbia—New Westminster, Vancouver and Victoria.

132. The results of the daily clearings are reported by telegraph from the regional centres to Montreal; and the net debits or credits of the day, for each of the Canadian chartered banks, are settled before one o'clock on the same day in Dominion notes. For this purpose the banks maintain in Montreal a central clearing fund; each bank keeping in the fund an amount of Dominion notes to meet debit balances.

## 2. THE CANADIAN MONETARY SYSTEM

133. Canadian legal tender money consists of the following:—

*Legal Tender to any Amount.*

1. Gold: The British sovereign and any other current British gold coins. The Eagle ($10) of the United States of America, the Half-eagle ($5) and Double-eagle ($20). Canadian gold coins, which have been minted in denominations of $5 and $10.
2. Dominion Notes, which may be issued in amounts of 25 cents, $1, $2, $5, $500 and $1,000, and also $5,000 and $50,000 for use between banks only.

(Under the Finance Act the Governor General in Council may in emergencies, real or apprehended, authorize the chartered banks to pay out their own notes as "sufficient and valid tender." Otherwise the notes of the banks are not legal tender.)

*Limited Legal Tender.*

1. Silver coins, which are issued in pieces of 50, 25 and 10 cents and formerly in pieces of 5 cents, are legal tender to an amount not exceeding ten dollars.
2. Nickel coins, issued since 1922 in pieces of 5 cents, to an amount not exceeding five dollars.
3. Bronze coins, issued in pieces of 1 cent, to an amount not exceeding twenty-five cents.

The following Table 9 and graph show over various periods the Dominion notes outstanding and gold held; Table 10 shows the circulating media in the hands of the general public.

## Table 9

DOMINION NOTES OUTSTANDING[1] AND GOLD RESERVES AS AT JUNE 30, 1891-1933

| Year | Small notes, $1, $2, $4, and $5, and fractionals[2] | Large notes, $50, $100, $500, $1,000 and $5,000[3] | Total notes outstanding | Amount borrowed under Finance Act | Amount issued under Dom. Notes Act and special war legislation | Gold reserves | Percentage of gold reserves to notes outstanding |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | p.c. |
| 1891 | 6,768,666 | 9,407,650 | 16,176,316 | ........... | 16,176,316 | 3,887,027 | 24 |
| 1896 | 7,377,096 | 12,995,100 | 20,372,196 | ........... | 20,372,196 | 8,758,252 | 43 |
| 1901 | 10,158,659 | 17,739,850 | 27,898,509 | ........... | 27,898,509 | 14,557,074 | 52 |
| 1906 | 14,630,427 | 35,311,000 | 49,941,427 | ........... | 49,941,427 | 29,013,931 | 58 |
| 1911 | 19,837,545 | 79,471,000 | 99,308,945 | ........... | 99,308,945 | 78,005,231 | 79 |
| 1916 | 27,283,425 | 148,213,750 | 175,497,175 | 450,000 | 175,047,175 | 114,071,032 | 65 |
| 1921 | 34,403,934 | 234,365,250 | 268,769,184 | 74,879,375 | 193,889,809 | 83,854,487 | 31 |
| 1926 | 32,512,264 | 143,200,650 | 175,712,914 | 19,800,000 | 155,912,914 | 94,999,480 | 54 |
| 1927 | 33,845,764 | 143,160,150 | 177,005,914 | 15,950,000 | 161,055,914 | 105,700,181 | 60 |
| 1928 | 35,051,707 | 165,703,650 | 200,755,357 | 57,250,000 | 143,505,357 | 80,756,302 | 40 |
| 1929 | 37,159,176 | 172,803,650 | 209,962,826 | 88,700,000 | 121,262,826 | 58,931,581 | 28 |
| 1930 | 37,029,483 | 137,189,150 | 174,218,633 | 49,700,000 | 124,518,633 | 65,719,661 | 38 |
| 1931 | 35,288,353 | 110,028,650 | 145,317,003 | 13,500,000 | 131,817,003 | 70,534,481 | 49 |
| 1932 | 38,586,870 | 129,686,650 | 168,273,520 | 40,500,000 | 127,773,520 | 64,849,441 | 39 |
| 1933 | 38,194,408 | 146,232,650 | 184,427,058 | 51,944,000 | 132,483,058 | 69,271,565 | 38 |

[1] Includes Dominion notes in the Central Gold Reserves as security for bank note circulation.
[2] Includes provincial notes amounting to $32,857 in 1890 and reduced to $27,588 on June 30, 1933.
[3] Includes issue of $50,000 notes, 1918-1933.

## Table 10

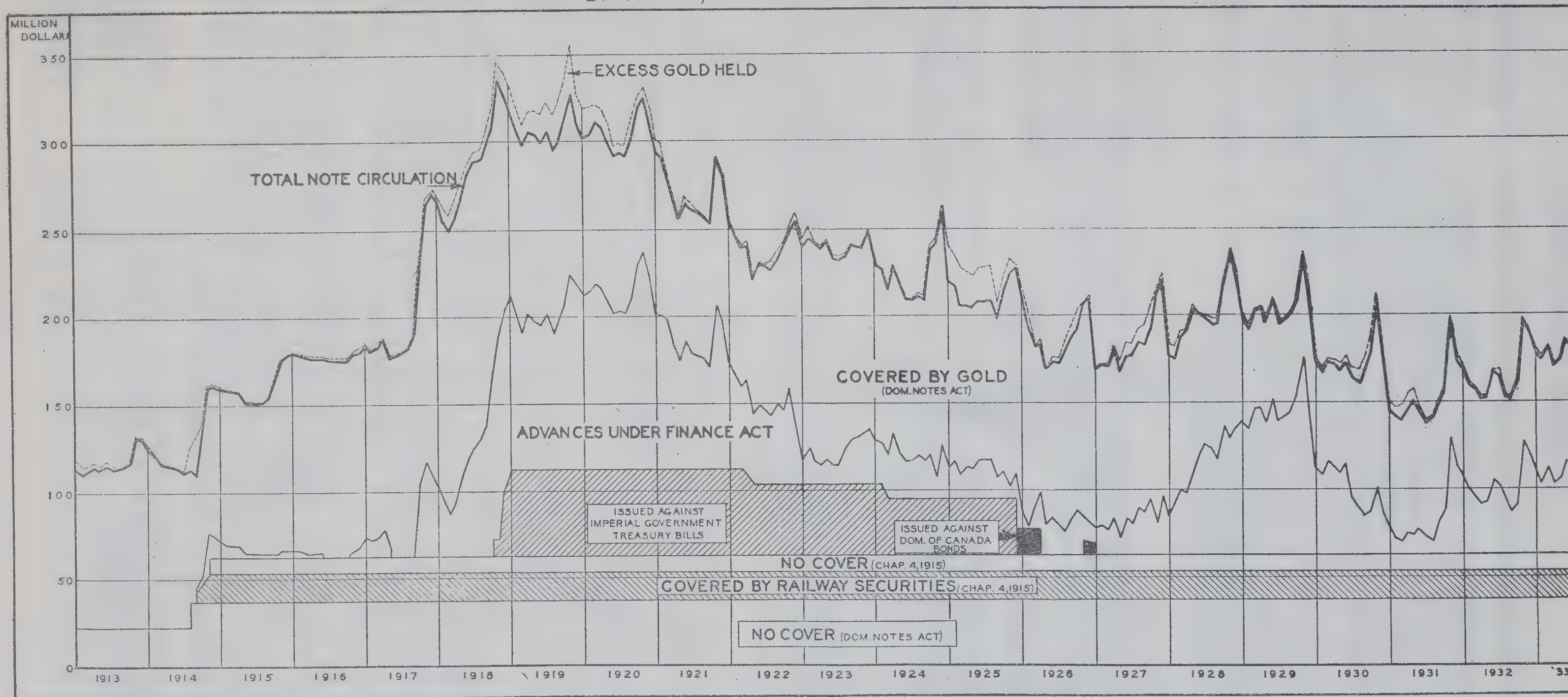
CIRCULATING MEDIA IN THE HANDS OF THE GENERAL PUBLIC, CALENDAR YEARS 1901-32[5]

(Note.—Includes till money in the hands of the banks)

| Year | Silver[1] | Nickel[1] | Bronze[1] | Bank Notes[2] | Dominion Notes,[2] $1, 2, 4, 5 and fractionals[3] | Totals | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Amount | Per capita | Index No. per capita[4] |
| | $ | $ | $ | $ | $ | $ | $ | |
| 1901 | 8,279,924 | ........... | 676,429 | 50,601,205 | 10,595,169 | 70,152,727 | 13·06 | 106 |
| 1906 | 11,295,235 | ........... | 832,429 | 70,638,870 | 14,797,483 | 97,564,017 | 15·74 | 128 |
| 1911 | 15,670,663 | ........... | 1,021,628 | 89,982,223 | 21,497,429 | 128,171,943 | 17·78 | 145 |
| 1916 | 19,768,089 | ........... | 1,323,234 | 126,691,913 | 27,857,543 | 175,640,779 | 21·94 | 179 |
| 1921 | 28,344,569 | ........... | 1,956,326 | 194,621,710 | 33,825,582 | 258,748,277 | 29·44 | 240 |
| 1926 | 27,433,463 | 564,865 | 2,043,833 | 168,885,995 | 32,675,174 | 231,603,330 | 24·51 | 200 |
| 1927 | 27,104,534 | 813,784 | 2,080,196 | 172,100,763 | 33,689,474 | 235,788,751 | 24·47 | 199 |
| 1928 | 27,737,963 | 1,063,627 | 2,171,657 | 176,716,979 | 35,093,625 | 242,793,302 | 24·69 | 201 |
| 1929 | 28,638,195 | 1,330,498 | 2,290,789 | 178,291,030 | 36,811,966 | 247,362,478 | 24·66 | 201 |
| 1930 | 28,562,330 | 1,494,525 | 2,297,405 | 159,341,085 | 36,431,368 | 228,126,713 | 22·35 | 182 |
| 1931 | 28,706,348 | 1,775,139 | 2,346,054 | 141,969,350 | 36,465,462 | 211,262,353 | 20·36 | 166 |
| 1932 | 28,853,740 | 1,939,923 | 2,558,962 | 132,165,942 | 38,788,027 | 204,306,594 | 19·45 | 158 |

[1] Figures supplied by the Mint as at Dec. 31 of each year, are the net issues of coinage since 1858.
[2] Yearly averages.
[3] Dominion notes of larger denominations in hands of banks are not included, but provincial notes, amounting to $27,594 in 1932, are included.
[4] Per capita circulation in 1900 is taken as 100.
[5] Taken from Canada Year Book 1933 p. 889.

DOMINION NOTES OUTSTANDING AND SECURITY THEREFOR
BY MONTHS, JANUARY 1913 – AUGUST 1933



134. Under existing legislation relating to the issue of Dominion notes,

$50 millions may be issued against a reserve of 25 per cent ($12·5 millions) held in gold (Dominion Notes Act, R.S.C. Chap. 41.)

$26 millions were issued during the war for special purposes, against $16 millions of which specified railway securities guaranteed by the Dominion are held. (Statutes of Canada: 5 George V, Chap. 4.)

Dominion Notes may be issued under the Finance Act (R.S.C. Chap. 70) to the chartered banks and to the banks to which the Quebec Savings Banks Act applies against such securities as are specified in that Act, no gold being required.

All other notes issued must be backed dollar for dollar by gold. (Dominion Notes Act, R.S.C. Chap. 41.)

*The Finance Act*

135. The relevant provisions of the Finance Act require further explanation. We have in a previous chapter explained the operation of the statute as an emergency measure. In normal times the Minister of Finance may make advances of Dominion notes to the chartered banks and to those to which the Quebec Savings Banks Act applies upon the pledge of:

(*a*) Treasury bills, bonds, debentures or stocks of the Dominion of Canada, Great Britain, any province of Canada, and of any British possession;
(*b*) Public securities of the Government of the United States;
(*c*) Canadian municipal securities;
(*d*) Promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax or other commodity;
(*e*) Promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes and which have been used or are to be used for such purposes.

136. Such securities must be deposited by the borrowing bank with the Minister of Finance or with an Assistant Receiver General. The Treasury Board determines the rate of interest upon the advances and is empowered to make regulations regarding the terms and conditions of the deposit of the securities. The Treasury Board consists of the Minister of Finance and five other ministers nominated by the Governor in Council (at present the Ministers of Justice, Trade and Commerce, Railways and Canals, National Revenue, and Marine), with the Deputy Minister of Finance as Secretary.

137. All advances under the Finance Act fall due on 1st May of each year, and shortly before that date each bank may apply for the renewal of any amount outstanding and for a " line of credit " to cover anticipated or possible requirements during the ensuing year. By Treasury Board minute, authorization is given for advances to the several banks of such amounts as the Board may consider advisable.

138. By the present regulations no margin is required upon advances against Dominion securities, a margin of 10 per cent of market value is required on Canadian Guaranteed, British Government and United States Government securities, 15 per cent on Provincial securities, 20 per cent on municipal securities and 25 per cent to 35 per cent on promissory notes and bills of exchange. The securities deposited on 15th September, 1933, were:

| | |
|---|---|
| Dominion of Canada Securities | $161,045,000 00 |
| Securities guaranteed by the Dominion of Canada | 4,677,000 00 |
| Provincial Securities | 39,895,223 43 |
| Municipal Securities | 8,630,000 00 |
| | $214,247,223 43 |

139. The rates of interest which have been charged are shown in the subjoined table:

TABLE 11

RATES OF INTEREST CHARGED TO BANKS UNDER THE FINANCE ACT

| Period | Rate |
|---|---|
| 1914 to Nov. 1, 1924 | 5%, except that under terms of Order in Council of October 20, 1917, $3\frac{1}{2}$% was charged on Imperial Treasury Bills. |
| Nov. 1, 1924, to Nov. 1, 1927 | $4\frac{1}{4}$%. |
| Nov. 1, 1927, to Dec. 1, 1927 | 4%. |
| Dec. 1, 1927, to June 8, 1928 | $3\frac{3}{4}$%. |
| June 8, 1928, to Sept. 1, 1928 | 5% except on advances against 4% Treasury notes on which the authorized rate was $3\frac{3}{4}$%. |
| Sept. 1, 1928, to Oct. 26, 1931 | $4\frac{1}{2}$% except on advances against 4% Treasury notes on which the authorized rate was $3\frac{3}{4}$%. |
| Oct. 26, 1931, to May 2, 1932 | 3%. |
| May 2, 1932, to May 1, 1933 | $3\frac{1}{2}$% except from Oct. 15, 1932, to Nov. 3, 1932, when on advances secured by 4% Treasury Bills dated Oct. 15, 1932, the rate was $2\frac{1}{2}$%, and from Nov. 1, 1932, when on advances secured by 4% 2-year notes dated Nov. 1, 1932, the rate was 3%. |
| May 1, 1933, to date | $2\frac{1}{2}$% except on advances secured by 4% 2-year notes dated Nov. 1, 1932, for which the rate is 3%. |

140. The amounts of Dominion notes borrowed by the banks under the Finance Act are shown in the two following tables:

TABLE 12

ADVANCES UNDER FINANCE ACT—HIGH AND LOW BY MONTHS FOR YEARS 1927-1933 INCLUSIVE

| | High | Low | | High | Low |
|---|---|---|---|---|---|
| 1927 | | | 1928 | | |
| January | 11,500,000 | Nil | January | 32,500,000 | 10,000,000 |
| February | 16,500,000 | Nil | February | 28,000,000 | 7,500,000 |
| March | 12,500,000 | 2,500,000 | March | 36,000,000 | 14,000,000 |
| April | 20,800,000 | 6,500,000 | April | 36,000,000 | 19,500,000 |
| May | 20,800,000 | 7,300,000 | May | 47,000,000 | 15,250,000 |
| June | 15,950,000 | 8,700,000 | June | 57,250,000 | 29,750,000 |
| July | 17,050,000 | 12,950,000 | July | 64,130,000 | 45,750,000 |
| August | 29,950,000 | 13,150,000 | August | 64,130,000 | 47,130,000 |
| September | 22,750,000 | 10,950,000 | September | 54,630,000 | 38,630,000 |
| October | 30,750,000 | 10,750,000 | October | 73,550,000 | 41,130,000 |
| November | 30,750,000 | 10,500,000 | November | 66,550,000 | 42,050,000 |
| December | 32,500,000 | 7,500,000 | December | 72,550,000 | 30,050,000 |

## TABLE 12

ADVANCES UNDER FINANCE ACT—HIGH AND LOW BY MONTHS FOR YEARS 1927-1933 INCLUSIVE—*Conc.*

| | High | Low |
|---|---|---|
| 1929 | | |
| January | 76,500,000 | 50,000,000 |
| February | 71,500,000 | 43,500,000 |
| March | 83,500,000 | 51,000,000 |
| April | 84,000,000 | 51,500,000 |
| May | 75,550,000 | 41,500,000 |
| June | 88,700,000 | 53,550,000 |
| July | 88,700,000 | 50,950,000 |
| August | 77,400,000 | 55,200,000 |
| September | 79,400,000 | 48,400,000 |
| October | 90,150,000 | 54,150,000 |
| November | 112,900,000 | 56,150,000 |
| December | 112,900,000 | 42,700,000 |
| 1930 | | |
| January | 82,700,000 | 31,700,000 |
| February | 44,700,000 | 11,700,000 |
| March | 50,200,000 | 15,450,000 |
| April | 49,700,000 | 17,200,000 |
| May | 45,200,000 | 14,700,000 |
| June | 49,700,000 | 13,700,000 |
| July | 49,700,000 | 13,950,000 |
| August | 24,200,000 | 700,000 |
| September | 24,200,000 | 700,000 |
| October | 22,700,000 | 700,000 |
| November | 38,700,000 | 700,000 |
| December | 21,000,000 | 614,000 |
| 1931 | | |
| January | 21,000,000 | 1,500,000 |
| February | 12,500,000 | 1,000,000 |
| March | 8,500,000 | Nil |
| April | 11,000,000 | Nil |
| May | 10,500,000 | Nil |
| June | 13,500,000 | 500,000 |
| July | 13,500,000 | 500,000 |
| August | 6,500,000 | 500,000 |
| September | 19,500,000 | 1,000,000 |
| October | 24,500,000 | 9,500,000 |
| November | 66,500,000 | 17,500,000 |
| December | 49,000,000 | 8,750,000 |
| 1932 | | |
| January | 49,000,000 | 27,500,000 |
| February | 36,500,000 | 15,000,000 |
| March | 32,000,000 | 15,500,000 |
| April | 27,500,000 | 15,000,000 |
| May | 29,600,000 | 10,500,000 |
| June | 40,500,000 | 17,500,000 |
| July | 40,500,000 | 24,500,000 |
| August | 29,000,000 | 13,500,000 |
| September | 23,000,000 | 10,000,000 |
| October | 27,500,000 | 12,000,000 |
| November | 65,144,000 | 27,344,000 |
| December | 57,488,000 | 35,944,000 |
| 1933 | | |
| January | 57,488,000 | 37,444,000 |
| February | 41,944,000 | 35,244,000 |
| March | 48,444,000 | 35,944,000 |
| April | 39,344,000 | 36,944,000 |
| May | 42,344,000 | 37,444,000 |
| June | 51,944,000 | 40,844,000 |
| July | 51,644,000 | 46,244,000 |
| August | ........ | ........ |
| September | ........ | ........ |
| October | ........ | ........ |
| November | ........ | ........ |

## Table 13

### ADVANCES UNDER THE FINANCE ACT

Monthly Averages of Daily Advances

| — | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 | 1933 |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| January | 1,420,000 | 14,120,000 | 57,642,300 | 41,680,800 | 6,153,800 | 31,020,000 | 40,373,200 |
| February | 2,187,500 | 12,460,000 | 49,604,200 | 18,595,800 | 2,187,500 | 22,556,000 | 35,656,500 |
| March | 6,425,900 | 19,407,400 | 57,740,000 | 21,488,500 | 903,800 | 17,700,000 | 37,110,700 |
| April | 10,185,400 | 23,276,100 | 57,520,000 | 22,470,800 | 3,083,300 | 18,465,500 | 37,500,500 |
| May | 11,578,000 | 31,386,500 | 54,878,800 | 24,950,000 | 3,100,000 | 13,844,000 | 39,370,900 |
| June | 12,120,000 | 35,830,000 | 60,747,900 | 22,158,300 | 1,660,000 | 25,040,000 | 43,520,000 |
| July | 14,654,200 | 51,380,700 | 50,411,500 | 24,430,800 | 2,346,200 | 28,748,000 | 48,552,000 |
| August | 15,483,300 | 52,194,800 | 60,029,600 | 8,881,500 | 1,430,800 | 18,633,300 | |
| September | 14,070,000 | 42,838,300 | 55,941,700 | 2,580,000 | 3,440,000 | 13,040,000 | |
| October | 14,711,500 | 47,335,200 | 61,601,900 | 9,477,800 | 18,269,200 | 13,764,000 | |
| November | 14,666,000 | 49,770,000 | 68,120,000 | 3,741,700 | 22,000,000 | 36,575,900 | |
| December | 12,826,900 | 39,591,700 | 52,316,000 | 2,858,600 | 20,355,800 | 39,699,500 | |

141. *Bank Deposits.*—Bank deposits subject to cheque furnish much the most important medium of exchange in Canada. An accompanying table shows the proportion for five year periods since 1871 which deposits in chartered banks of the Dominion have borne to the notes issued by those banks.

## Table 14

### PROPORTION OF DEPOSITS IN CHARTERED BANKS TO NOTES ISSUED

| Year | Bank Notes in Circulation[1] | Total on Deposit[1] | Proportion which Total Deposits bear to Bank Notes |
|---|---|---|---|
| | $ | $ | |
| 1871 | 20,914,637 | 56,287,391 | 2·7 to 1 |
| 1876 | 21,245,935 | 72,852,686 | 3·4 " 1 |
| 1881 | 28,516,692 | 94,346,481 | 3·4 " 1 |
| 1886 | 31,030,499 | 111,449,365 | 3·6 " 1 |
| 1891 | 33,061,042 | 148,396,968 | 4·5 " 1 |
| 1896 | 31,456,297 | 193,616,049 | 6·2 " 1 |
| 1901 | 50,601,205 | 349,573,327 | 6·9 " 1 |
| 1906 | 70,638,870 | 605,968,513 | 8·6 " 1 |
| 1911 | 89,982,223 | 980,433,788 | 10·9 " 1 |
| 1916 | 126,691,913 | 1,418,035,429 | 11·2 " 1 |
| 1921 | 194,621,710 | 2,264,586,736 | 11·6 " 1 |
| 1926 | 168,885,995 | 2,277,192,043 | 13·5 " 1 |
| 1931 | 141,969,350 | 2,422,834,828 | 17·1 " 1 |

[1] Yearly averages.

142. This proportion rose from 2·7 to 1 at the beginning of the period to 17·1 to 1 in 1931.

143. The amount of bank deposits is dependent upon a variety of complex economic factors which although of a non-monetary character, are of considerable importance. From an exclusively monetary standpoint the main consideration affecting the lending and investing policies of the banks is the amount of cash reserves which they consider necessary to carry against their deposit liabilities under any given circumstances, provided there exists a proper field in which to lend money or purchase securities.

144. If a bank receives from some new or outside source an increase in its "cash reserves," it will in the ordinary course of events proceed to make loans or to buy securities. The public receiving the proceeds of the loans or sales will deposit in the banks all that they do not require for hand-to-hand cash. Insofar as these deposits are made in other banks, cheques will be drawn on the original bank, with the effect of diminishing its reserves and increasing those of its competitors. The latter, provided their cash position be already satisfactory, will then be in a position to make additional loans and investments, if conditions warrant, and this in turn will enable the public to make further deposits. Insofar as the loans and investments made by the original bank return to it as deposits, it will be in a position to make further loans or investments. Through this process of lending, investing and depositing, the increased cash reserve is distributed among the banks and the volume of loans and investments and deposits is increased by an amount several times greater than the amount of the original increase in cash reserves. A similar result may ensue if one or more banks should decide that their cash reserve ratio may be reduced. Conversely, the volume of deposits would be contracted if the bank's cash reserves were reduced or if a bank decided that its existing cash reserves were too low.

145. The cash reserves of the banks mainly consist of gold and Dominion notes. The amount of gold held in a country is dependent, when the country is on a fully effective gold standard, upon the balance of international payments and the resulting import and export of gold. When gold cannot move freely in and out of a country and its price rises to a premium over the legal price, the gold reserves in the country will depend upon the purchase of gold at the premium and upon the freedom of export if this is profitable.

146. The banks' reserves of Dominion notes are determined on the one hand by the amount of such notes issued under the various laws mentioned above and on the other hand upon the volume of Dominion notes required by the public for hand-to-hand circulation. The demands of the public for Dominion notes normally depend upon the current volume of wage payments and the level of retail prices. Over longer periods the extent of the demand also depends upon the changing habits of the public regarding the use of coins, notes, cheques, etc.

147. The public demand for Dominion notes is not under the control of the banks notwithstanding the fact that banking policy may have an influence on the volume of retail trade. On the other hand it is possible, by the use of the facilities available under the Finance Act for the banks to vary the amount of their Dominion note reserves, subject to such restrictions as the Treasury Board may impose and within the limits and along the lines of generally accepted banking practice.

148. The volume of deposits in Canada, from the monetary standpoint, depends upon the factors mentioned in the three preceding paragraphs, the two most important being the international gold movements and the borrowing under the Finance Act.

149. Sir Thomas White, while concurring generally as to the effect which banking reserve policy may exert upon deposits, regards the treatment of the subject of such deposits in this paragraph as incomplete and refers to his personal addendum to our report.

## 3. OTHER FINANCIAL INSTITUTIONS

150. *Stock Exchanges.*—The operations of stock exchanges in Canada are conducted under rules which are, in general, similar to those of leading stock exchanges in the United States. Settlements are on a cash basis and are made daily, as contrasted with British and continental settlement practice. Members of the stock exchanges act as brokers, buying and selling stocks on commission.

They carry stocks for clients on margin and periodically this class of business assumes large proportions. At times, also, brokers are holders of substantial credit balances of customers. A few of the large brokerage houses have investment banking departments which buy from and sell to the public on their own account, but these departments are separately incorporated with limited liability.

151. In general, new issues of stocks are not made through the stock exchanges. The prevailing practice is for the issuing company or a syndicate to offer them direct to the public. The principal stock exchanges will not list a company's shares until a fairly wide public distribution has been made. We are informed that, in the case of the Montreal Stock Exchange, it is the practice, when additional issues of stocks already listed are to be made, to insist that immediate application be made for listing privileges and that the new stock be offered to shareholders on a *pro rata* basis before being offered for sale in any other way.

152. *Investment Bankers.*—A small number of the investment bankers act solely as brokers, but the great majority of them buy and sell bonds on their own account, that is to say they are dealers. They borrow on the security of their holdings from the chartered banks or trust companies and other corporations. The investor purchases securities which are generally owned by the dealer, whether they be old or new issues. During the past few years, however, the risks involved in the outright purchase of securities were too great and syndicates of investment bankers were formed to sell as agents new issues on a commission basis. "Underwriting" as practised in Great Britain is not common in Canada. Those who take a participation in an issue of securities generally distribute it directly to the public. There are no bond exchanges in Canada and the published quotations are obtained from individual bond dealers.

153. *Loan, Mortgage and Trust Companies.*—The Dominion Parliament has not exclusive jurisdiction over these institutions. Some operate under Dominion and others under provincial laws. The affairs of all such companies operating under Dominion statutes are subject to examination and supervision by the Superintendent of Insurance.

154. The principal function of loan companies is the lending of money on the security of real estate. In addition to their capital they obtain their funds by the sale of debentures and by receiving deposits. Outstanding debentures and deposits form the main items included in the total liabilities to the public of $140,232,090, as quoted in the report of the Superintendent of Insurance for December 31, 1932. Of this total $107,757,261 represented the liabilities of the ten loan companies operating under Dominion charters and of two provincial companies all under the supervision of the Superintendent of Insurance. The amount of deposits included in the latter figure was $29,418,924.

155. Trust companies engage in business similar to that of the loan companies and act as executors, trustees and administrators under wills or by appointment, as trustees under marriage or other settlements, as agents or attorneys in the management of estates of the living, as guardians of minors or incapable persons, as financial agents for municipalities and companies and, when so appointed, as trustees in bankruptcy. A very important function they perform is to act as trustees for the bondholders in connection with bond issues where assets are pledged. Some of these companies receive deposits, while all of them invest for the account of their clients, in short or long term loans which may or may not be guaranteed by them.

156. *Rural Credit Institutions.*—There are no complete statistics available regarding the amount of farm mortgage loans in Canada. Data collected in the census of 1931 indicated that out of a total of 654,241 owned and partly owned farms in the Dominion, 244,580 were mortgaged to the extent of

$671,776,500. (The figures disregard mortgages on rented farms numbering 74,382.) Only a small proportion of the total farm mortgage indebtedness is owing to rural credit organizations. In recent years credit from provincial government sources has been restricted owing to the difficulty of obtaining funds at a sufficiently low rate of interest and also because of the danger of embarrassment to the provinces by increasing unduly their indebtedness.

157. A long term credit plan has been in operation in the provinces of Ontario (20-year plan) and Saskatchewan (30-year plan) for some years, and the outstanding loans in these provinces, according to the latest published figures, are approximately $45,000,000 and $15,000,000 respectively. The general rate of interest in Ontario has been 5½ per cent and in Saskatchewan 6½ per cent. In Manitoba a system of long term credit on a 30-year amortization plan was initiated in 1917, but was discontinued after the Canadian Farm Loan Board commenced operations in the Province.

158. The Canadian Farm Loan Board, which came into being in 1929, makes loans to farmers at 6½ per cent interest per annum and 7 per cent interest on arrears. These loans are made on a basis of repayment in a period of 23 years or 32 years. At the end of the last fiscal year, 31st March, 1933, outstanding loans amounted to $9,482,000. So far the Board operates only in six provinces, namely, Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia and Quebec.

159. In addition to the short term rural credit granted by the chartered banks, legislative provision exists for the furnishing of short term credit by the Ontario Agricultural Development Board and by the Provincial Treasurer in Alberta. In Ontario the maximum short term credit granted has never exceeded some $350,000, and the Farm Loan Associations, through the medium of which these facilities are granted, have never played an important part in the field of short term credit. The rate of interest charged is 6½ per cent, of which 1 per cent goes to the Associations to defray administration costs. In Alberta this type of legislation first came into existence in 1921. Under the original legislation societies were organized at local points each operating as a separate and distinct unit. Funds were obtained by the societies from the chartered banks which were in part protected against loss by guarantee of the provincial government. As a result of losses in a number of the societies a reorganization of the entire scheme was effected in 1931. A provincial corporation was established by a statute of the legislature of that year consolidating the various existing societies as members, the capital stock being contributed by the societies. While each society still retains as a unit its relationship with its members, it is required to contribute annually to a common sinking fund to cover any losses in any society. The rate of interest in Alberta is 7½ per cent (of which ½ of 1 per cent accrues to the local Society) plus ¼ to ½ of 1 per cent to provide the sinking fund.

160. In Manitoba provision for short term credit was made by the legislation of 1917 with a stipulation that interest should not exceed 7 per cent, of which 1 per cent should accrue to the local Rural Credit Society. An investigation into the management of these Societies was made in 1923, and subsequently large losses, both of principal and interest, were written off. The Societies are no longer managed by local directors, but by the central government authority in Winnipeg, and it is understood that no new business of consequence is being undertaken. The total loans outstanding, according to the public accounts at 30th April, 1932, were $1,085,675.

161. In Quebec, while there is no provincial plan of short term or intermediate credit, requirements of this nature are met in some degree by the facilities provided by the "Caisses Populaires" (Co-operative People's Banks), whose operations have been previously described.

162. Only one attempt in recent years has been made to supply intermediate credit. The Dominion Agricultural Credit Company, Limited, was organized early in 1931, largely through the efforts of Mr. E. W. Beatty, with capital supplied by the railway companies, the banks, loan companies and insurance companies. Its purpose is to assist farmers in acquiring live stock. The authorized capital stock is $5,000,000, of which over $3,000,000 was subscribed, with 10 per cent paid up. Mr. H. O. Powell, the Vice-President and General Manager, in his evidence before us at Regina stated that the amount of capital paid up had been more than sufficient to meet the demands to date. He further stated that the Company asked for repayment of loans over a period of three years with interest at 6 per cent plus certain inspection fees. Loan applications are handled largely through local committees. Recently the Company has engaged in sheep raising on a profit sharing basis with farmers; the Company purchases and retains ownership of the stock while the farmer provides pastures and care.

# CHAPTER IV

## SOME ECONOMIC FEATURES OF CANADA IN RELATION TO THE FINANCIAL SYSTEM

163. We propose in this chapter to draw attention to certain salient features of the economic situation in Canada possessing a special significance from the financial point of view, and to indicate some of the problems to which they give rise, in order that we may judge how far these problems can be adequately dealt with by the existing financial institutions of Canada as we have described them.

164. Canada presents a number of prominent economic characteristics which determine the special nature of her financial problems. These characteristics are mainly:—

1. Excess production in relation to population;
2. Dependence on international trade;
3. Specialized production and local diversity;
4. Heavy cost of development;
5. The burden of debt, internal and external;
6. Relative economic instability.

165. It is important to have regard to the quantitative as well as to the qualitative aspects of these features of the Canadian economy. For it is in part their magnitude that occasions the difficulties to which they give rise. We accordingly proceed to give some descriptive and statistical details regarding them. Canada is a country with an area of 3,690,043 square miles inhabited by a population of 10,376,786, or 3 persons per square mile, according to the census of 1931.

TABLE 15

POPULATION OF CANADA BY PROVINCES, 1931[1]

| Province | Population | Percentage of total | Density[2] |
|---|---|---|---|
| Prince Edward Island | 88,038 | 0·85 | 40·31 |
| Nova Scotia | 512,846 | 4·94 | 24·72 |
| New Brunswick | 408,219 | 3·93 | 14·73 |
| Quebec | 2,874,255 | 27·70 | 5·49 |
| Ontario | 3,431,683 | 33·07 | 9·45 |
| Manitoba | 700,139 | 6·75 | 3·19 |
| Saskatchewan | 921,785 | 8·88 | 3·87 |
| Alberta | 731,605 | 7·05 | 2·94 |
| British Columbia | 694,263 | 6·69 | 1·98 |
| Other territories | 13,953 | 0·13 | 0·01 |
| Total | 10,376,786 | 100·00 | 3·00[3] |

[1] Taken from the *Canada Year Book 1933*, p. 102 and p. 106.
[2] The density of population in 1931 (that is, the number of persons per square mile of land area) is of course affected greatly by the large northern areas included in most provinces.
[3] The figure for all Canada, when the Territories are excluded, rises to 5·20.

166. Within her borders are immense and varied natural resources. The exploitation of these resources by an active and enterprising people has led to an output of commodities of many kinds greatly in excess of the consuming power of the existing population.

167. In order to dispose of this surplus, Canada has necessarily to find markets abroad for a considerable proportion of her production. This is a feature which is common to all countries in process of development. Peoples engaged in the exploitation of natural riches must inevitably concentrate on the production and the early stages of manufacture of foodstuffs and raw materials, whilst the production of highly manufactured commodities is postponed. The latter must be imported and their cost as well as the interest and dividend charges on foreign borrowings must be provided largely by an export trade which must therefore be on a commensurate scale.

Table 16 shows the extent of the external trade of Canada.

## TABLE 16

EXTERNAL TRADE OF CANADA[1]

(In millions of dollars)

| Year ended March 31 | Imports | Exports | Excess of exports (e) Excess of imports (i) | | Total trade per capita[2] |
|---|---|---|---|---|---|
| 1914 | 619·2 | 455·4 | (i) | 163·8 | 137 |
| 1919 | 919·7 | 1,268·7 | (e) | 349·0 | 252 |
| 1926 | 927·3 | 1,328·7 | (e) | 401·4 | 237 |
| 1927 | 1,030·9 | 1,267·6 | (e) | 236·7 | 237 |
| 1928 | 1,109·0 | 1,250·6 | (e) | 141·6 | 238 |
| 1929 | 1,265·7 | 1,388·9 | (e) | 123·2 | 262 |
| 1930 | 1,248·3 | 1,145·0 | (i) | 103·3 | 240 |
| 1931 | 906·6 | 817·0 | (i) | 89·6 | 164 |
| 1932 | 578·5 | 587·6 | (e) | 9·1 | 110 |
| 1933 | 406·3 | 480·7 | (e) | 74·4 | 83 |

[1]Taken from the *Canada Year Book 1933*, p. 517.
[2]This column is in dollars per head of population.

168. Canada is not only a country of immense area but also of great diversity of natural features. The variety of her natural resources and conditions is reflected in a corresponding variety in density of population, in racial composition and in the occupations of the people. The population by provinces and its density has been shown in Table 15.

169. The Maritime Provinces, because of their situation and physical characteristics, have been settled by people of British and French stock who find their livelihood in fishing, lumbering and mixed farming. The St. Lawrence Valley became the heart of French Canada and permitted the reproduction there of the rural life of Normandy. Later the rich resources of mine and forest and the rapidly growing population attracted capital and promoted development. Upper Canada received some of the United Empire Loyalists and numerous immigrants from the British Isles and the United States. This region of the Great Lakes, by its rich soil and temperate climate, encouraged the settlement of a large farming population which provided a domestic market for a growing industrial life. Thus central Canada has acquired to some degree the stability of economic life which arises from diversification of pursuits. Between this area and the Prairie Provinces there intervenes a barren tract of 800 miles which temporarily arrested the westerly movement of population. The offer of homesteads and the development of railways fostered the settling of these provinces

whose characteristics are sparseness of population, narrowness of occupational range and variability of return. Meantime, British Columbia had attracted the fisherman and the farmer, the miner and the lumberman and by its natural wealth induced the investment of capital. But the mountains separated British Columbia from the rest of British North America and this barrier was only surmounted at great cost.

170. In a country of such variety it is inevitable that some areas should be limited in the range of possible occupations. Table 17 shows the distribution of the important Canadian industries by provinces. The prairies have naturally specialized in spring-wheat growing. The value of agricultural products in the three Prairie Provinces ranges from 32·8 to 57·9 per cent of their total production. In Ontario and in Quebec manufactured products rank highest with 62·8 and 63·5 per cent of the total production. In New Brunswick agriculture and forestry account for 57·7 per cent of the total.

TABLE 17

PERCENTAGE OF THE VALUE OF THE NET PRODUCTION IN EACH INDUSTRY TO THE TOTAL NET PRODUCTION OF THE PROVINCE, 1930[1]

| — | Prince Edward Island | Nova Scotia | New Brunswick | Quebec | Ontario | Manitoba | Saskatchewan | Alberta | British Columbia | Canada |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 76·8 | 22·5 | 29·8 | 19·4 | 20·2 | 32·8 | 57·9 | 46·9 | 12·8 | 23·6 |
| Forestry | 3·5 | 9·8 | 27·9 | 12·4 | 5·4 | 4·5 | 4·2 | 3·9 | 24·0 | 9·4 |
| Fisheries | 6·8 | 9·1 | 6·1 | 0·3 | 0·2 | 1·3 | 0·2 | 0·2 | 8·6 | 1·5 |
| Trapping | ........ | 0·3 | 0·1 | 0·1 | 0·2 | 0·5 | 0·9 | 0·5 | 0·3 | 0·3 |
| Mining | ........ | 23·6 | 2·8 | 4·6 | 8·2 | 3·8 | 1·8 | 16·6 | 20·4 | 8·7 |
| Electric power | 1·4 | 3·2 | 3·6 | 4·9 | 3·6 | 4·6 | 3·5 | 2·5 | 4·0 | 3·9 |
| Construction | 4·4 | 4·1 | 9·1 | 11·3 | 8·3 | 10·1 | 13·3 | 8·8 | 8·0 | 9·2 |
| Custom and repair | 0·9 | 2·4 | 1·6 | 1·8 | 2·6 | 5·5 | 4·5 | 3·8 | 3·0 | 2·7 |
| Manufactures | 6·2 | 25·0 | 19·0 | 45·2 | 51·3 | 37·0 | 13·7 | 16·8 | 18·9 | 40·7 |
| Totals | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 | 100·0 |
| Totals, manufactures, (percentages to general totals of net production) | 10·3 | 36·1 | 37·5 | 62·8 | 63·5 | 47·6 | 19·9 | 22·0 | 43·9 | 54·8 |

[1] Taken from the *Canada Year Book 1933*, p. 213.

171. The cost of co-ordinating into an economic unit a country so immense in area and so diversified in character has necessarily been heavy. The dispersion of population and the specialization of the several areas have imposed on the Canadian people a serious burden in providing for the requirements of government, transportation and industry. Both physical and technical factors have made it imperative that the economic framework should be of a size which, in other countries, would have served a much larger population. The optimism natural to a new and growing society, encouraged by phases of abounding prosperity, has also led to the provision of public utilities on a scale which has in some respects anticipated the needs of a much larger community. The recent Report of the Royal Commission on Railways and Transportation in Canada has shown the unfortunate extent to which, in the particular domain of railway transportation, this process has been carried. In the following table the public debt burden of Canada is set out.

TABLE 18

DEBT OF THE DOMINION GOVERNMENT, PROVINCIAL GOVERNMENTS, MUNICIPALITIES AND CORPORATIONS, BY SELECTED YEARS, 1914–1932[1]

(in thousands of dollars)

| — | 1914 | 1919 | 1929 | 1932 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Net debt of the Dominion Government, March 31.. | 335,996 | 1,574,531 | 2,225,505 | 2,375,846 |
| Bonds guaranteed by the Dominion Government as to principal and interest, and interest only, March 31 | 110,000 | 110,000 | 714,208 | 1,000,522 |
| Gross direct liabilities of provinces, at end of fiscal year | 200,000[2] | 334,472 | 1,031,719 | 1,363,382[3] |
| Indirect liabilities of provinces | 100,000[2] | 118,768 | 224,470 | 215,977[3] |
| Total liabilities of municipalities | 376,859 | 493,275 | 1,332,510 | 1,600,000[2] |
| Corporations | 1,110,000 | 1,118,000 | 1,916,796 | 2,097,000 |
| | 2,232,855 | 3,749,046 | 7,445,208 | 8,652,727 |

[1]Compiled by Dominion Bureau of Statistics.
[2]Estimated. [3]Subject to revision.

172. Between 1900 and 1913 the total indebtedness of the public bodies and corporations of Canada rose to over two billions of dollars. It is not sufficiently realized that it has grown by over 300 per cent since 1914. Nor is it true that the war was largely responsible for this. By 1919 the total had risen from 2 to 3.7 billions only. Moreover, the actual increase in the burden of debt since 1929 is much greater because of the fall in prices than an expansion from 7.4 to 8.6 billions of dollars would indicate.

173. Were this debt held wholly in Canada it would still bear heavily enough on the producer but the fact that much of the money came from abroad has involved the country in an external debt problem of great magnitude as well. In Table 19 we give the estimated total investment of capital in Canada by citizens of other countries for each of the years 1914, 1919, 1929 and 1931. It is clear that all the elements of the Canadian economy must, therefore, be highly efficient and its natural wealth be abundant if such a burden is to be borne and the population is to continue to enjoy the high standard of living characteristic of North America.

TABLE 19

ESTIMATED BRITISH AND FOREIGN INVESTMENTS IN CANADA[1]

(In thousands of dollars)

| — | 1914 | 1919 | 1929 | 1931 |
|---|---|---|---|---|
| British | 2,711,841 | 2,606,848 | 2,128,489 | 2,204,858 |
| United States | 904,455 | 1,800,435 | 3,608,521 | 4,107,803 |
| Other Countries | 177,729 | 173,493 | 155,409 | 165,217 |
| Total | 3,794,025 | 4,580,776 | 5,892,419 | 6,477,878 |

[1]The estimates for 1914 and 1919 have been specially computed; all figures for 1929 and 1931 have been taken from computations by the Dominion Bureau of Statistics.

174. A country whose economic life is dominated by such factors as have been described is bound to be subject to a considerable degree of economic instability. Weather conditions produce great variations in the yield of the farmer's crops. This is especially significant where he is dependent on one main crop of so variable a yield as wheat. (See column I of Table 20 below). Column II of Table 20 indicates a high degree of variability even over the whole range of industrial production. Not only is the range of fluctuation from year to year considerable, but instability is accentuated by the highly seasonal character of productive activity inevitable in a country situated in a northern latitude and so largely dependent on agriculture. The summer tourist visitor has, of late, tended to introduce another seasonal factor.

TABLE 20

SOME VARIABLE FACTORS IN THE CANADIAN ECONOMY

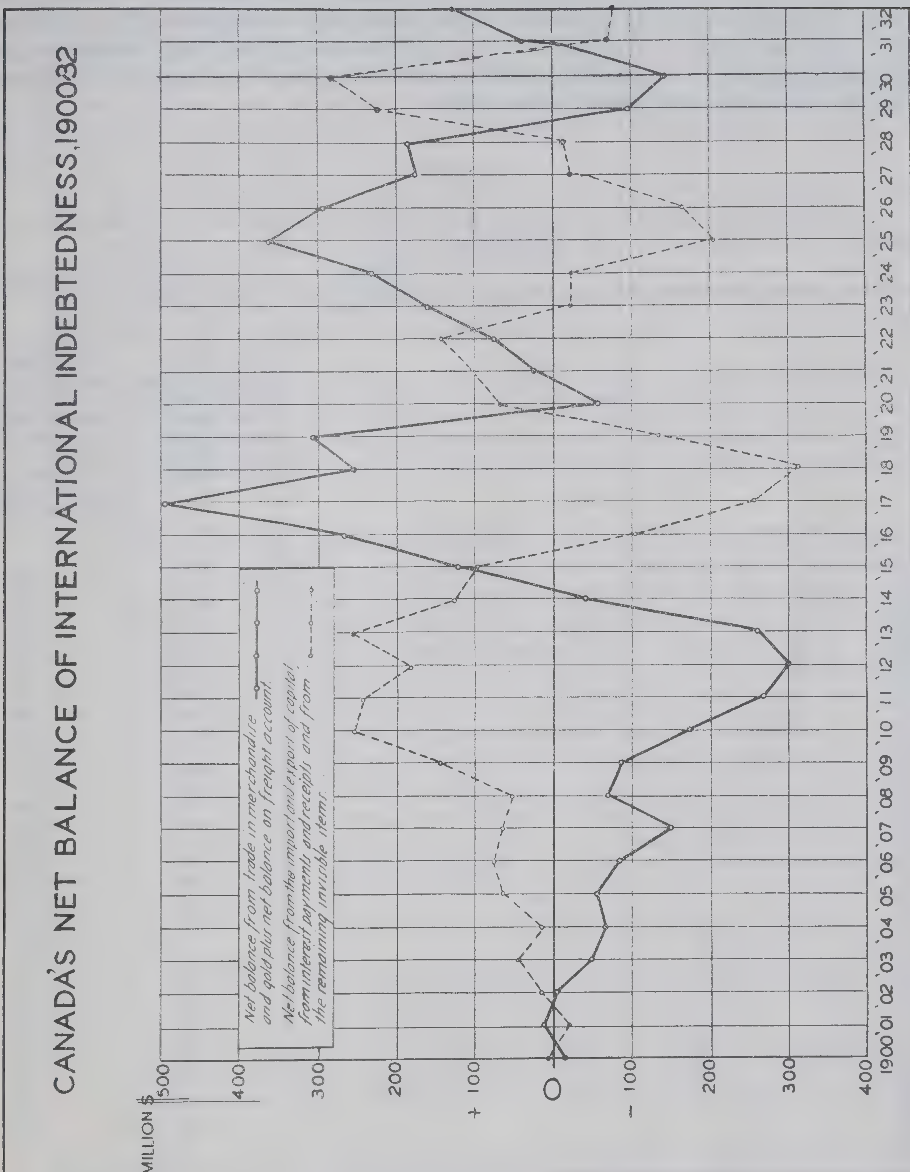
| Year | I<br>Average wheat yield in bushels per acre[1] | II<br>Index of industrial production (1926=100)[2] | III<br>External borrowings (in thousands of dollars)[3] |
|---|---|---|---|
| 1919 | 10·0 | 65·5 | 82,640 |
| 1920 | 14·5 | 69·9 | 207,495 |
| 1921 | 13·0 | 60·4 | 180,297 |
| 1922 | 17·8 | 76·9 | 304,922 |
| 1923 | 21·0 | 83·8 | 196,726 |
| 1924 | 11·9 | 82·4 | 224,680 |
| 1925 | 19·0 | 89·7 | 69,590 |
| 1926 | 17·8 | 100·0 | 187,453 |
| 1927 | 21·4 | 105·6 | 266,805 |
| 1928 | 23·5 | 117·8 | 133,715 |
| 1929 | 12·1 | 127·4 | 233,580 |
| 1930 | 16·9 | 108·0 | 351,882 |
| 1931 | 12·3 | 90·4 | [4] |
| 1932 | 15·8 | 74·0 | [4] |

[1]Taken from the *Canada Year Book 1933*, p. 241.
[2]An index computed by the Dominion Bureau of Statistics.
[3]From 1926 to date the estimates by the Dominion Bureau of Statistics have been used; for the earlier period special computations have been made.
[4]Data for these years not yet available.

175. Variability in the physical volume of agricultural production may be offset to some extent if the alterations of supply have their expected effects on prices. But Canada must sell a very large part of her products in the world market and her exports form only a part of the world supply. It may happen therefore that world price changes may accentuate the uncertainties of return arising from the vagaries of the weather. When they do so, the industries dependent on the farmers' purchasing power are also affected. All business thus becomes more speculative through the enormous importance to the Canadian economy of the prices of a few export commodities.

176. It is a direct consequence of such a situation that the prospects of profit from the investment of foreign capital in Canada vary greatly from time to time. It is much easier to sell Canadian securities abroad in some years than in others. In part this reflects the alternations of prosperity and depression which Canada shares with all countries but to a great extent it is due to the determining influence of the volume and prices of exports. The maturities of bonds may well coincide with a time when prospects of refunding are slight. As a consequence, the actual surplus available after maturities and interest obligations are met is highly variable. Column III of Table 20 gives estimates of the net amounts since 1919. There thus arise, occasionally, situations of peculiar difficulty. On the one hand individuals, corporations and governments must raise the needed revenue in Canada, and on the other hand the banking system is called upon to provide the amounts of foreign exchange demanded in the face of lessened returns from the export trade.

177. The net effect of all these factors is to produce a highly variable balance of trade. In times of heavy capital inflow more goods are bought in other countries than are sold there. When capital imports shrink, an excess of exports must be attained if debt charges are to be met. The actual variations which have been experienced in Canada since 1900 are shown in Table 21 and in the accompanying Chart.


CANADA'S NET BALANCE OF INTERNATIONAL INDEBTEDNESS, 1900-32
Net balance from trade in merchandise and gold plus net balance on freight account.
Net balance from the import and export of capital, from interest payments and receipts and from the remaining invisible items.
MILLION $
500
400
300
200
+ 100
0
− 100
200
300
400
1900 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22 '23 '24 '25 '26 '27 '28 '29 '30 '31 '32

Column I represents the net excess of imports or exports through the trade in commodities and gold and the freight charges involved. Column II represents the amount available to or owed by Canada as the net result of the movement of capital in and out of the country, of the interest charges and receipts and of the minor items in Canadian international accounts. The amounts of these two groups of items would balance were the information complete. The fact that only rough estimates are available does not however make them misleading as representations of the variations which economic instability has in fact imposed upon the economy of Canada since 1900.

TABLE 21

CANADA'S NET BALANCE OF INTERNATIONAL INDEBTEDNESS, 1900–1932[1]

(in millions of dollars)

| Year | I<br>Net balance from the trade in merchandise and gold plus net balance on freight account | II<br>Net balance from the import and export of capital, from interest payments and receipts and from the remaining invisible items |
|---|---|---|
| 1900 | − 14 | 6 |
| 1901 | 10 | − 20 |
| 1902 | − 3 | 15 |
| 1903 | − 49 | 45 |
| 1904 | − 66 | 15 |
| 1905 | − 54 | 62 |
| 1906 | − 83 | 77 |
| 1907 | −149 | 66 |
| 1908 | − 69 | 52 |
| 1909 | − 86 | 143 |
| 1910 | −173 | 253 |
| 1911 | −269 | 241 |
| 1912 | −300 | 182 |
| 1913 | −259 | 254 |
| 1914 | − 40 | 129 |
| 1915 | 123 | 95 |
| 1916 | 269 | −105 |
| 1917 | 496 | −256 |
| 1918 | 256 | −313 |
| 1919 | 308 | −135 |
| 1920 | − 69 | 69 |
| 1921 | 28 | 100 |
| 1922 | 77 | 144 |
| 1923 | 164 | − 21 |
| 1924 | 231 | − 24 |
| 1925 | 365 | −206 |
| 1926 | 295 | −165 |
| 1927 | 176 | − 19 |
| 1928 | 184 | − 10 |
| 1929 | − 95 | 222 |
| 1930 | −144 | 285 |
| 1931 | 42 | − 71 |
| 1932 | 126 | − 78 |

[1] A debit balance is indicated by a minus sign. From 1900 to 1913 this table is computed from information contained in *Canada's Balance of International Indebtedness 1900-1913*, by J. Viner, (Cambridge: Harvard University Press, 1924). The estimates for the period 1914-26 have been specially computed, while those for the years 1927-1932 are compiled from publications of the Dominion Bureau of Statistics.

178. A complication of another character is created by the constitution of Canada under the British North America Act of 1867 which entrusts exclusive legislative powers with reference to banking and currency, and trade and

commerce to the Dominion Parliament and at the same time confers on the provincial legislatures full legislative powers with reference to property and civil rights and direct taxation within their borders. There is thus always the possibility of divergence in financial policy between the Dominion and one or more of the provinces and among the provinces themselves. We do not conceive it to be appropriate for us to enter upon any detailed discussion of the constitutional questions thus arising.

179. The features which, because of their importance, we have selected for mention as characteristic of the economic life of Canada necessarily give rise to a number of financial problems. It is desirable that the financial system of a country so circumstanced should—

(1) be accommodated to the great seasonal variation in volume of business;

(2) possess sufficient strength to withstand the vicissitudes of the highly specialized regions of the country;

(3) provide for the financing of external trade;

(4) assist in providing the mechanism requisite for borrowing at home and abroad;

(5) possess instrumentalities for the exercise of a measure of control over (*a*) domestic speculative tendencies and (*b*) foreign exchange rates;

(6) be in a position to participate in international co-operation regarding financial policies which may affect the world prices of Canada's exports, and other matters.

180. Certain of these requirements have been met by the high degree of development in Canada of the ordinary functions of banking. To this we have already referred in some detail. In their more general aspects, the demands of the national economy were met up to 1914 without the provision of any co-ordinating machinery by the operation of the gold standard. It is pertinent to our inquiry to examine briefly the manner in which that system operated, in order that we may be in a position to assess at their true value subsequent alterations in the financial system in their relation to the new needs that have arisen.

181. The gold standard was adopted by the United Provinces of Canada (now Ontario and Quebec) in 1853, and was continued as the standard by the Dominion of Canada at its formation in 1867. Thus, the gold standard had in 1914, been in continuous operation for sixty years. Under this standard, obligations payable in gold were redeemed in gold and there was an unhampered export and import of the metal. In terms of United States currency the gold points were somewhat less than 3/32 of 1 per cent from the parity of exchange.

182. The monetary structure as it existed in 1914 consisted of (i) the free stock of gold, (ii) the government note issue and (iii) the banking system—that is the aggregate of the individual banks. From the previous recital of the structure of the Dominion note issue, it is clear that it functioned in an automatic way. The Department of Finance exchanged Dominion notes for gold, and gold for notes. The growth of the Dominion note issue was dependent on the acquisition of additional gold stocks.

183. As there were then no rediscounting facilities or anything of a similar character within Canada, there was no way by which the banking system could, within Canada, quickly increase its cash reserves. It was thus forced to rely upon its assets quickly realizable outside Canada.

184. Each bank extended or limited credit in the light of its position in terms of cash within the country and claims on cash without. The fundamental consideration of a bank was always to keep its position sufficiently liquid to meet all the cash demands made upon it. On the Canadian banking structure as a

whole the main demands for cash, apart from domestic seasonal needs, were for meeting external requirements: The ability to meet this demand implied the ability to maintain the gold standard.

185. The functioning of the gold standard meant that an efflux of gold would result in credit being restricted with all the economic stresses which such a policy involves. An influx of gold brought about the opposite result. The functioning of the gold standard meant the maintenance of stable foreign exchanges and so kept the movements of the domestic and world-price structures in harmony.

186. In the years from 1900 to 1913 the great expansion in Canada was financed by a heavy importation of capital. The usual economic stresses and strains involved in an adherence to the gold standard were therefore easily borne.

187. When Canada sold securities in London, the proceeds of the loan were usually deposited in a branch of a Canadian bank. Some of the proceeds of the loan were used to buy goods which were sent to Canada but a large part of the proceeds was wanted for expenditure in Canada. Accordingly, the borrower sold his London balance to the bank for a deposit in Canada; the bank increased its assets abroad and its deposit liabilities in Canada. In this way, the Canadian banks, in return for deposits in Canada, were constantly coming into possession of foreign balances. As the domestic deposit did not need a reserve equal to the whole foreign balance, the bank was in a position to use the excess of the foreign balance as it desired. It could be lent or invested in London or in New York or taken to Canada in the form of gold. In either case, the bank had an additional reserve asset which permitted the further extension of credit if it so desired. This procedure permitted a continuous expansion of credit to go on in Canada. Balances obtained through a sudden increase in the returns from the export trade, either through added volume or an advance in prices, might also result in the expansion of credit. The great importance to the Canadian banking system of balances obtained in these ways is thus clear.

188. The outbreak of war in 1914 caused a diminution of the capital flow to Canada which contributed to the crisis. Thus Canada was left with a heavy burden of fixed charges and smaller capital imports. The adjustment of its foreign exchanges became more difficult and economic stress became apparent in net exports of gold. However, the great demand for raw materials which arose out of the war needs provided a means of paying external charges and filled in the gap left in the balance of payments by the diminution of capital imports.

189. The prosecution of a war places immense financial burdens on the governments involved. The problem facing the Canadian Government at the outbreak of war was that of directing part of the productive capacities of the country to the supply and manufacture of materials necessary for the prosecution of the war. If this was to be done it was necessary that the community's consumption of goods be reduced in order that other goods destined for military purposes might be produced. Credit inflation was one method open to the Government to divert to its own purposes a larger proportion of the total production.

190. The Canadian Government did not attempt to use the Dominion note issue to any extent as an agency of inflation. The Government borrowed from the banks, through the sale of treasury bills, and then repaid the banks from the proceeds of bonds sold to the public. Under the provisions of the Finance Act the banks were able to borrow Dominion notes—cash reserves—which provided a base on which to support the added credit made necessary by the financial operations of the Government. In this way the Finance Act may be said to have been the efficient agency which made effective the policy of inflation which Canada, in common with all belligerent countries, followed.

191. As the suspension of the gold standard occurred immediately at the outbreak of the war, the whole war period was one of inconvertible paper—a necessary condition for inflation. The subsequent depreciation in the Canadian dollar reflected the wide swings in the balance of payments.

192. The significant difference between the pre-war and post-war financial structure was the addition of the Finance Act which was made permanent in 1923. The fact that this Act was made permanent several years after the end of the war was in itself noteworthy. Indeed, both in quality and in quantity the economic problems of Canada, as we have already seen, had taken on a new gravity. Not only were there the after effects of war inflation to be met, but a general expansion in production, in the volume of trade, and in the amount of internal and external borrowings, coupled with instability in the foreign exchanges, magnified the problems of the past and created fresh complications. Moreover the world of post-war finance was no longer steadied by the working of an automatic gold standard. Indeed, the gold standard was restored in a world which called for continuous direction and co-operation on the part of the various national monetary authorities.

193. When in 1926 Canada returned to the gold standard—still faced in no diminishing degree by these problems—the only additional financial mechanism with which she was equipped, as compared with pre-war days, was that of the Finance Act. We have already described in Chapter III the provisions of the Act, and the extent of the use that was made of them. We shall have occasion to refer to the Act later in another connection from the point of view of its defects. It is sufficient for the present purpose to outline the real significance of the powers and responsibilities which this Act entrusted to the Treasury Board.

194. Essentially the Act provided an instrument for increasing the credit base in Canada, that is to say, the cash reserves of the banks. The instrument was the power of the Treasury Board to make advances of Dominion notes,—i.e., of cash—to the banks against approved securities. Under an inconvertible paper standard some such mechanism was obviously necessary. Even under the restored gold standard the special post-war problems of Canada, certain of which, indeed, were also world problems, called for some additional means of influencing the credit base. The obligation assumed in 1926 to maintain the convertibility of the Canadian dollar into gold, presupposed, among other things, means of regulating the credit base so as not only to permit expansion but also to operate in a restrictive direction.

195. An examination in the light of contemporary conditions of the rates charged from time to time on Finance Act advances suggests that these rates were not used as an instrument of credit expansion and contraction, but were mainly varied to meet the exigencies of the Dominion Government's finances. The volume of advances was not subject to the restriction of a gold reserve. The Treasury Board did not assume the responsibility of ensuring that the uses made of the Finance Act were consistent with the requirements of a convertible currency. The banks, on the other hand, which could take the initiative of expanding the credit base through advances of Dominion notes under the Finance Act, were under no obligation to use this initiative in maintaining the gold standard. Thus the Finance Act did not provide Canada with the organization needed to undertake the tasks which the maintenance of the restored gold standard implied.

196. We have thought it desirable in this portion of our Report to give some space to the consideration of certain aspects of the general economic situation of Canada in their relation to our main theme. Whether the facts of that situation as we see them call for other measures than those which we are competent to recommend is not for us to say. In forming our conclusions we

have concentrated on the question whether in the existing monetary and financial system of Canada the amendment of any of its features or the provision of machinery not now in existence could have a favourable effect on the general economic life of the nation.

Sir Thomas White dissents from many of the statements and conclusions contained in this chapter and expresses his views regarding the topics to which they relate in his personal addendum to our report.

# CHAPTER V

## THE EXISTING CANADIAN FINANCIAL SYSTEM AND THE ESTABLISHMENT OF A CENTRAL BANK

197. In the preceding chapters we have described the existing financial institutions of Canada and their methods of working; we have also delineated the outstanding features of the economic situation of Canada and indicated the nature of the financial problems to which those features give rise. It now remains to consider (1) how far the financial system of Canada, consisting of the institutions we have described, is adequately equipped to play an effective part in dealing with these problems and (2) how far the methods and actual practice of these institutions, within their existing constitution, are satisfactorily meeting the demands made upon them. These two questions are of quite distinct orders of magnitude. It is one thing to examine the adequacy of the equipment of a system; it is another thing to examine how the system with its existing equipment is working. At the same time, the efficiency of the working is necessarily related to the adequacy of the equipment.

198. If regard is had to the nature of the financial and economic problems confronting Canada, as we have briefly presented them, it is manifest that they concern the banks in a pre-eminent degree among the institutions enumerated. To a less extent, they also concern the organizations for the provision of rural credit.

199. We may say that it is only with regard to the constitution and powers of these two classes of institutions that we have had any substantial body of critical evidence and it may also be said that as regards the administration of Canada's financial institutions, as distinct from their constitution, criticism has been concerned almost exclusively with the banks, and this was no doubt natural in view of the nature of our inquiry.

200. We propose therefore in the first place in this chapter, to consider the adequacy of the existing equipment of the banking system of Canada in view of the part which a modern banking system is called upon to play in the national economy and also in view particularly of Canada's own problems. In a succeeding chapter we shall also, though more briefly, discuss the question of the organization of rural credit. In another chapter we shall deal with the matters which have been brought to our attention affecting not the structure but the ordinary working of the banking system.

201. It has been manifest, from what we have previously written, and indeed from much of the information afforded us in the course of our hearings, that insofar as the ordinary functions of banking are concerned, the Canadian banks give admirable evidence of security, efficiency and convenience. In a time of universal economic difficulty, the Canadian banks have stood firm and have continued to render to the people of the Dominion the same high quality and the same wide variety of services as in the past.

202. It is nevertheless necessary to ask whether there are any functions which a modern banking system may reasonably be expected to perform which either are not performed or are inadequately performed by the existing Canadian system. From this point of view, the observer cannot but be impressed by the absence in Canada of any single banking authority which, while linked by its activities with national finance and commerce, is nevertheless detached by its constitution and the temper of its administration from the ordinary pur-

suits of commercial banking. If we survey the cardinal monetary problems which face the Canadian people in common with all other peoples to-day, we are immediately confronted with a multitude of difficult and intricate questions. To what extent and through what organizations should the volume of credit and of currency be regulated? On what body should lie the primary responsibility for maintaining the external stability of the country's currency? To what institution may the Government of the day most suitably turn for informed and impartial advice on matters of financial policy?

203. In the great, and an increasing, majority of countries the answer to these questions has been found in the existence or the creation of a central bank. In some cases, these banks have reached their present positions of national and international importance by a long process of growth. In other cases, they have been created by acts of the national legislatures and endowed from the outset with the functions that have gradually and inevitably concentrated in the older institutions.

204. It is due to no mere accident that the existence and the functions of central banks have been the subject of much discussion in recent years and have to an increasing extent influenced the language and technique of modern banking and finance. New methods and new terms are, as a result of manifold and prudent experiment, steadily but effectively gaining acceptance. This development has repeatedly found recognition at international conferences called to consider monetary questions since the war. The International Financial Conference held at Brussels in 1920 unanimously recommended that:—

> "The Conference is of opinion that in countries where there is no central bank of issue, one should be established."

Again, at Genoa in 1922, the International Economic Conference resolved that:—

> "Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance. In countries where there is no central bank of issue, one should be established."

At the World Monetary and Economic Conference of 1933, resolutions, to which Canada was a party, were adopted that:—

> "The Conference considers it to be essential in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent Central Banks, with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate Central Banking institution.
>
> "The Conference wish to reaffirm the declarations of previous conferences with regard to the great utility of close and continuous co-operation between Central Banks."

After the adjournment of the World Monetary and Economic Conference the Canadian delegation joined with other delegations of the British Commonwealth of Nations in stating that they:—

> "Now reaffirm their view that the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard,"

and that

> "effective action in this matter must largely depend on international co-operation."

205. These repeated recommendations have arisen from a general sense on the part of responsible statesmen of the reality and the urgency of the tasks,

both national and international, which fall to the lot of a central bank. Those tasks may conveniently be summarized here.

206. In the first place, from a national point of view, the central bank, within the limits imposed by law and by its capacities, should endeavour to regulate credit and currency in the best interests of the economic life of the nation and should so far as possible control and defend the external value of the national monetary unit. In the second place, from the international point of view, the central bank by wise and timely co-operation with similar institutions in other countries, should seek, so far as may lie within the scope of monetary action, to mitigate by its influence fluctuations in the general level of economic activity. These functions do not, of course, exhaust the tasks of a central bank. Within a state the central bank should, in addition, be a ready source of skilled and impartial financial advice at the disposal of the administration of the day. In return for the privileges which the state confers upon it, the bank should use its store of experience in the service of the community without the desire or the need to make profit a primary consideration.

207. It is easily possible to expect either too much or too little of central bank action. A central bank is at the same time an instrument and a force. As an instrument it is the means by which the state—which must necessarily retain ultimate sovereignty in matters affecting the currency—can give effect to the national policy. As a force the central bank has certain powers in its keeping which can be used to achieve the ends of national policy. Clearly these powers are of differing efficacy according to the aim of the policy. A central bank cannot be expected to influence directly the price of a particular commodity. It is even not desirable that a central bank should be specifically charged with any responsibility for the general price level of a country. There are many factors, of varying nature, which combine to influence that level, and a central bank, working as it does purely in the monetary sphere, cannot be expected to have complete control, though it may well have a measure of influence. If it attempted to exercise any drastic control it would have to wield powers far beyond those which any body other than the sovereign authority would be entitled to exercise. It is manifest, however, that the regulation of the volume of credit is an important factor in influencing the level of economic activity and therefore of prices and this is one of the cardinal tasks of a central bank. In the absence of a central bank it is a task the fulfilment of which is either left to chance, or performed inadequately by other agencies. The regulation of the quantity of credit is effected by the action of the central bank on the reserves of the commercial banks. By increasing or diminishing these reserves, or by increasing the cost of securing them, there is set in motion a process of expansion or contraction through the ordinary channels of banking. A central bank is thus not a competitor with the commercial banks. Its functions are regulatory and indirect.

208. In the control over the external value of the monetary unit the action of the central bank is also of major importance. This function, indeed, is a logical outcome of that of credit regulation. Whatever additional influences may affect the level of the exchanges, such as short term capital movements, external borrowings and indebtedness, and the income from overseas investments, the long term factor of decisive importance is the credit structure of the country, and no modern state can afford to dispense with the most effective controlling instruments.

209. The services which a central bank may perform in the international sphere are even less easily dispensed with in the modern world than those which it can render within the borders of a state. Whatever changes may occur in the volume of international trade and the comparative positions of various countries, there has never been a time when external financial inter-relationships have assumed more importance than in the last decade. The need for inter-

national monetary co-operation is urgent and constant. It has found expression, not only in several international conferences, to some of which reference has been made above, but in a more permanent way in the development of the Bank for International Settlements. This body, essentially a bank for central banks, is a tangible testimony to the need which has been felt for regular and continuous interchange of views between the responsible authorities of the various national central banks.

210. The precise degree to which the level of economic activity in the world as a whole may be influenced by concerted international monetary action, may be a matter of opinion, but that a common direction in monetary policy may have an important influence in avoiding economic excesses or in stimulating revival is beyond dispute. The co-operation of central banks is beset with many difficulties; its effects are limited or distorted by many non-monetary influences; but if we wish to continue that mutual interchange of goods and services which in the past has stimulated the economic life of all parts of the world, we ought to use all possible means of bringing order into the realm of international relations. In the monetary sphere the germ of such order is to be found in the inter-relations of central banks working to harmonize national policy with the needs of the international situation.

211. Within the narrower, but no less important, sphere of intra-Imperial co-operation, we note that in the Dominions of South Africa and Australia a central bank has already become an indispensable element in the financial structure, and that, in New Zealand and India, bills are at this moment before the respective Legislatures providing for the creation of a central bank. Thus, over the greater part of the self-governing portions of the Commonwealth of British Nations there are or may shortly be in existence central financial institutions designed not only to perform important services in the national economy, but also eminently suited to be the instruments of Imperial monetary co-operation.

212. It may be of interest to refer here briefly to the history of the South African Reserve Bank and the Commonwealth Bank of Australia which, despite the relatively short time they have been in existence, have already become valued institutions.

213. As the result of the Report of a Select Committee of the House of Assembly which was appointed in March, 1920, because of the grave effects of the war and post-war inflation, South Africa was the first Dominion to establish a reserve bank to regulate the issue of bank notes and the keeping of reserves with a view to securing greater stability in the monetary system of the Union of South Africa. The bank was enjoined to fix and publish a discount rate, was given the sole right of note issue and the custody of a portion of the commercial banks' cash reserves. Its powers were so defined as to ensure strength and liquidity and were later widened somewhat in order to increase the effectiveness of its control on the volume of credit.

214. There is little doubt that the Reserve Bank was of great use in helping the commercial banks to negotiate the difficult deflation period following the war. It was also of material use to the National Bank of South Africa in 1923 when that bank suffered a loss of capital and consequent impairment of its credit before being absorbed by Barclays Bank (Dominion, Colonial and Overseas). On the other hand, in 1929, when the volume of credit was expanding rapidly, the Bank exercised a salutary restrictive influence. The Bank has improved the machinery for making the proceeds of exports easily available in the Union. Its discount rate now sets the standard for the rates maintained by the commercial banks and it has been responsible for a reduction in discount and exchange rates.

215. In 1911 the Commonwealth Bank of Australia was founded by the Government in power, largely to handle the Commonwealth Government accounts and to establish a savings bank department. It is now also the banker for

several of the States. The bank was managed prudently and by its operations on behalf of the Government during and after the war it acquired considerable prestige. The note issue was transferred to it in 1920, and in 1924 the Commonwealth Bank Act was amended in order to allow the bank to function as a central bank. The savings bank department later became a separate institution. Although the bank still does some commercial business its policy is not to compete with the trading banks unless reasonable banking facilities are not otherwise forthcoming.

216. In the difficult years from 1929 onwards, the Commonwealth Bank has rendered services of inestimable value. It was instrumental in mobilizing the gold reserves of the country and their judicious employment to tide the country over a period when Australia's ability to provide and to transfer the service of her overseas debt was seriously in question. It organized an exchange pool to ensure the continued provision of external charges; the concentration in its hands of the issue and management of the Commonwealth debt and of most of the states' debt was of material advantage when the massive domestic Conversion Loan of 1931 was launched; while in taking over the control of the exchange rates since 1931 it has relieved the trading banks of a responsibility they were unwilling to shoulder and has exercised a stabilizing influence on the national economy. As a trusted and impartial adviser to the Federal Government the Bank has rendered and continues to render service of prime importance to Australia.

217. It is perhaps worth observing that in South Africa and Australia the commercial banks viewed the advent of central banking with considerable mistrust, possibly owing to a failure to appreciate the part which a central bank is designed to play, and to apprehensions as to the extent of its disturbance of the existing banking system. The first years of operation were thus rendered more difficult by the lack to some extent of co-operation on the part of the commercial banks but in recent years there has been a growing appreciation of the advantages of central banking leadership and control, and the central banks in these two countries have now obtained both the goodwill and co-operation of the commercial banks.

218. To enable it to discharge the essential functions to which we have referred above, modern experience tends to show that certain definite principles should be observed in the constitution of a central bank. Thus, in order that it may regulate credit and currency, it is essential that the central bank should hold a suitable proportion of the cash reserves of the commercial banks. It is essential for the full and satisfactory working of a central bank, that it should have the sole right of issue of legal tender notes; it is essential that the central bank, as the financial adviser of the Government, should in due course hold the various Government accounts and carry out, on behalf of the Government, all major financial transactions.

219. The functions discharged by a central bank being of such vital importance to the economic and financial life of a country, it is perhaps natural to ask whether they could not be adequately performed by some direct organ of government. It has in practice been found that a central bank can give most effective service to the community if it is free from the fear of interference for political ends in operating the delicate mechanism of the national monetary and financial machine. Certain statutory limitations have almost invariably been adopted in order to emphasize the national character of the bank. Thus, apart from the detailed provisions of the legislative act constituting a central bank, we may refer to the customary provision that the profits of the note issue should accrue, either directly or indirectly, to the state; that in most modern instances a limit is set to the profits which may be distributed to the shareholders; and lastly, that the state should have a final voice in the appointment of the Governor and Deputy-

Governor and sometimes of certain of the directors. Within this legislative framework it has been found that there are pre-eminent advantages to the state in entrusting the special and highly technical functions of a central bank to a body not subject to the vicissitudes of political life.

220. It is certainly remarkable that whereas even the smallest countries in Europe have long had, or have recently established, a central bank, there should be no corresponding institution in a country of the indisputable financial and economic importance of Canada. It is true that a large part of Canadian economic activity is of comparatively recent growth, but the explanation of the existing gap in the financial structure is not only, or indeed mainly, to be found in this fact. The explanation, we venture to think, is to be found chiefly in the excellence of the commercial banking institutions with which Canada is equipped. Their services, in all that pertains to ordinary banking, have been and remain of a quality which has tended perhaps to conceal the growing need for some further instrument to assist in dealing with the financial problems of the modern world.

221. However convinced we may be that a properly constituted central bank would be of great service to Canada, it is nevertheless right that before recommending its institution we should first ask ourselves whether there are any other means of achieving the same results with equal efficacy; whether the Canadian economy and Canada's existing financial structure are such as to provide the conditions for the successful operation of a central bank; and, if so, whether the time is opportune for the establishment of a central bank.

222. The survey we have already made in Chapters II and III of the Canadian financial system as it exists and operates to-day has shown the part played in the credit mechanism by the Finance Act of 1923. That this Act furnishes means of increasing the credit base is indisputable, but we are of opinion that the method which it embodies, regarded as part of the normal financial machinery of the country, is unsatisfactory. At a time when, under the gold standard, a deterioration in Canada's balance of payments led to an outflow of gold, it was possible for the banks to maintain their cash reserves by obtaining Dominion notes under the Finance Act. Thus, the normal consequence of the operation of the gold standard—without which, indeed, one of the main virtues of that standard is absent—was lacking, in that the credit base remained unchanged in Canada, and there was no incentive to take such corrective measures as financial policy could supply. Moreover, the Act does not require that any gold reserve be held by the Department of Finance against the notes issued to the banks. There is nothing in the Act to indicate that it was intended to entrust to the Department any discretionary control over the credit base although such a control is a cardinal feature in modern monetary technique. Finally, we may note that the powers of the Finance Act are entrusted to a Board which is in effect a committee of the Cabinet and are thus directly in political hands. We have already referred to the disadvantages of such an arrangement.

223. It has been represented to us from many quarters in the course of our inquiry that some further co-ordinating element is required in the Canadian banking system, and indeed the representatives of the Canadian Bankers' Association, to whose assistance we are so greatly indebted, themselves recognized the propriety of introducing some such machinery. After noting, in their memorandum, that "there exists no properly constituted body which can admit responsibility for the general supervision of credit or exchange in Canada" they go on to discuss the alternative courses of action, of which the first would be "to go back to the pre-1914 situation, by repealing the Finance Act." The conclusion of the memorandum as regards this course of action, is brief but definite: "There are obvious reasons why the first of these alternatives should not be chosen under any circumstances—but these reasons are especially strong at a time when almost the

whole world is off the gold standard; for under such circumstances our currency system would have no elasticity apart from the 15 per cent bank note issue expansion, based upon paid-up capital and reserves possible during the crop-moving period." The choice, in the view of the Association, lies between the creation of a central bank and the setting up of some other form of institution. After considering these alternatives the Association adopts the view that the need might be met by the creation of an Administrative Board, composed of experts in finance and currency and broadly representative of the business and agricultural interests of Canada, to which the functions now discharged by the Treasury Board should be entrusted.

224. That such a Board might discharge some of the central financial functions at present either not performed or dispersed through other channels, we do not doubt. On the other hand, even if its freedom from political interference could be adequately safeguarded—in itself no easy problem—such a Board would find it difficult, if not impossible, to win the prestige, whether internally or externally, which a central bank might be expected to acquire. A Board would not find it possible to establish satisfactory relations with central banks in other countries, or with the Bank for International Settlements. Its decisions—divorced in some degree as it must be from the day to day financial life of the community—would be liable to be marked by hesitation and compromise. For it must be remembered, even if it be a truism to say so, that the business of a central bank is banking, although of a very special kind, which calls not only for the highest skill, experience and integrity, but also for close and continuous contact with every important element in the financial structure.

225. Insofar as an Administrative Board attempted to overcome these difficulties it would be found, we think, that it would require powers and an organization so essentially similar to those of a central bank as to make it natural to inquire why a central bank should not from the outset have been established.

226. We have no hesitation in concluding, therefore, that, as between an Administrative Board and a central bank, the latter alternative is clearly preferable.

227. We now come to consider whether conditions exist in Canada for the successful functioning of a central bank. Here we should say at once how strongly we endorse the remarks made in a memorandum of the Canadian Bankers' Association, regarding the vital importance to such an institution of the quality of the governors and directorate. Experience, skill and integrity are required in the highest degree, and that, not only to ensure that the operations of the bank shall be wisely conducted, but also that the institution should win and maintain the confidence alike of the government, the people and the commercial banks.

228. We have no reason to suppose from our discussions with leaders in Canadian finance and industry that these qualities are lacking in Canada. On the contrary, we are convinced that there are resources of intelligence combined with experience and public spirit fully adequate to ensure the successful management of a central bank. It is true that the conduct of central banking operations requires a technique and an outlook somewhat removed from those of commercial banking; but this fact has had to be faced in every country which in recent years has established a central bank, and Canada appears to us not less well but better equipped than many other countries have been to provide the necessary administrative talent.

229. If we assume, as we believe we are entitled to do, a directorate of the necessary quality, we see no reason to regard any of the other more technical objections that have been urged as being of serious importance. It may indeed be the case that in the absence of a highly developed money market the control

of a central bank in Canada over the financial system could not be as sensitive as that which is exercised, for instance, by the Bank of England in the United Kingdom. The fact, however, that a new institution in Canada would not be able to employ all the instruments of control exercised in an older and financially more highly developed country, seems to us an inadequate reason for omitting to develop such control as could undoubtedly be achieved. The financial system and economic life of Canada are already sufficiently well developed to make the instruments of the discount rate, the purchase and sale of securities, and operations in the foreign exchange market, of sufficient importance in the hands of a well-managed central bank to give it a decisive influence on the credit situation in Canada.

230. Canada is a country with a relatively large volume of external trade and a heavy external indebtedness and is, therefore, especially interested in the international value of her currency. The holding of gold and foreign exchange by the central bank should and could become a factor of the first importance in carrying out the national policy in regard to the external value of the currency. It is no part of the functions of a central bank to monopolize the exchange markets. Here, as in the case of credit control, its function is to impart or counteract a trend as circumstances require, and this task, even from an early date, would be within the capacity of a Canadian central bank.

231. We have finally to consider the question of the opportuneness of establishing a central bank in Canada under present-day conditions.

232. So far from the time being inopportune we are of opinion that there are cogent reasons for its early establishment. The fact that the Canadian dollar is, for the time being, an inconvertible currency may, from one point of view, be regarded rather as an advantage than a disadvantage for the early operations of the bank. Obviously, the bank must work in close accord with the government in all that pertains to the external value of the country's currency, and if it were carrying out a national policy in this respect the bank must clearly have the support of the government in its foreign exchange operations. In these circumstances, the bank would be spared at the outset the risks with which it might be faced if it began its operations with a legal obligation to ensure convertibility at a time when gradually accumulated economic forces might already have weakened the strength of the currency.

233. Some reference has been made in the evidence tendered to us as to possible disturbance of the existing banking system which might be occasioned by the establishment of a central bank. We are unable to see in what respects such an institution could effect any material disturbance. On the contrary, a central bank would be expressly designed to strengthen the existing banking system. The initial transferences of assets which the establishment of the bank would require are in no way of an order sufficient to hamper the operations of the commercial banks. This is manifestly so as regards the creation of the initial reserve deposits and even the transfer of the commercial banks' note issues, if spread over a suitable period, need occasion no serious disturbance of existing banking facilities.

234. One further point on which we may add some observations relates to the cost of establishing and operating a central bank. In all that we have written above we have presupposed an organization adapted in its structure and size to the present Canadian system. Such an organization need be neither large nor expensive; its capital could be of modest dimensions so that there would be no need of large earnings in order to pay the statutory dividend. The physical organization of the bank need be neither elaborate nor widespread. Its main activities, apart from the function of distribution of currency, in which it would substitute its services for those now performed by the offices of the Receiver General, would be concentrated in a single head office. It is

true that at the outset there is a problem involved in the transfer to the central bank of the Dominion note issue, but it must be remembered that the government would be a substantial participator in the profits of the bank and in proportion as those profits grew, so the share of the government would increase. As and when the bank took over the note issues of the commercial banks, there would be a loss of income to the latter, but this can scarcely be conceived as an expense to Canada, but must rather be regarded as a transfer of income within the existing financial system. The only expenses not previously incurred would be those of the physical equipment and the salaries of the staff of the bank and these, given the scale of operations, can scarcely be regarded as of major importance in a country like Canada.

235. We are now in a position to sum up our general views on the question of a central banking institution for Canada. We should perhaps sound a note of warning as to the degree to which such an institution could fulfil all the expectations that the public mind might attach to it. A central bank could not cure all the economic ills of Canada; it would not be a source of unlimited credit for all borrowers on all occasions; indeed its operations might as often be restrictive as expansive.

236. On the other hand, its positive services would, we believe, be very considerable; it would substitute for the present undeveloped and anomalous system a more rational and unified control over the credit structure; it would provide a suitable instrument for the execution of a national policy in regard to the external value of the currency; it would be increasingly a source of skilled financial advice for the Dominion and possibly for the Provincial Governments; and, finally, it would provide a central body which could maintain relations with similar institutions in other countries, which find at present no counterpart in Canada with which to maintain contact.

237. We include in the appendix a suggested scheme for the constitution of a Central Bank for Canada.

238. Sir Thomas White and Mr. Beaudry Leman dissent from the arguments and conclusions contained in this chapter as to the need of the establishment of a central bank at the present time and under existing conditions and also as to certain features of the suggested constitution of such a bank should it at any time be established in Canada. They state their views on these questions in individual personal memoranda attached to our Report.

# CHAPTER VI

## AGRICULTURAL CREDIT

239. In an earlier chapter, reference has been made to the various facilities that have been provided in Canada to extend short, intermediate and long-term credit to those engaged in agriculture. As the establishment of the Canadian Farm Loan Board in 1929 has made reasonable provision for long term credit, it now remains to consider the adequacy of the facilities for short or intermediate credit.

240. As already indicated, efforts have been made to provide short term credit mainly through the medium of the following provincial organizations; in Ontario by the Agricultural Development Board, in Alberta by the Provincial Treasurer, and in Manitoba through the establishment of rural credit societies. In Quebec requirements of this nature are met to some degree by facilities provided by the Caisses Populaires. The enterprise of the Dominion Agricultural Credit Company Limited will also be recalled.

241. The history of these efforts is of value in a study of the credit problems of agriculture in Canada for two reasons. In the first place, the fact that the provincial governments decided to engage in these experiments may well be taken as indicating the necessity of agricultural credit at lower rates of interest than prudent banking practice might seem to warrant, particularly in certain areas where agricultural production is attended by certain hazards or requires loans of a length which militates against the affording of credit by commercial banks.

242. Secondly, the experience gained in the successes and failures that have followed the operations of these organizations in the various Provinces will be of valuable assistance in any subsequent attempts that may be made to meet the problem.

243. Whatever view may be taken of the necessity in more normal times for some provision for this type of credit in addition to such as is provided by the banks, undoubtedly the very great decline in prices of all agricultural products during the past three years and the attendant loss of farm income, have made the problem of agricultural credit a very acute and difficult one. Particularly is this true of the Prairie Provinces. Various estimates have been made of the effect of the shrinkage of purchasing power due to short crops and falling prices. In a memorandum prepared by a committee representing the Governments of the three Provinces, it is estimated that the annual gross revenue from agriculture in these Provinces fell from $843,153,000 in 1928 to $273,738,000 in 1932, representing a loss of 67½ per cent in farm income.

244. In the memorandum filed on behalf of the United Farmers of Ontario, an estimate made by the Dominion Bureau of Statistics of the values of field crops in Canada was given as follows:—

| | |
|---|---|
| 1928 | $1,125,003,000 |
| 1932 | 416,586,000 |

The following is an extract from the evidence submitted on behalf of the United Farmers of Ontario as to the problem of short term credit in Ontario—

> "Generally speaking, within the last two years the banks have ceased to function in regard to Canadian agriculture. Agriculture is taken to be an activity, or an industry that is not worthy of credit, and from the banking point of view I am not blaming them."

245. At various sittings of the Commission, evidence was adduced both by individual farmers and by representatives of farm organizations to show that as a result of this declining revenue the maintenance and operating costs of farms cannot be met, farm debts have considerably increased, taxes are unpaid, farm equipment has seriously deteriorated, and a large percentage of farmers are unable to obtain new credit to meet the operating costs incidental to putting in and harvesting the crop. This evidence was confirmed by representatives of the banks, particularly in Regina, where it was agreed that a large proportion of farmers could not carry on their operations without some form of credit, that the credit could not be supplied by the banks and that a serious problem therefore existed which had to be met if agriculture was to be revived. The indebtedness of many farmers appears to be such that even a substantial rise of agricultural prices would not be sufficient to warrant the extension of new credit through ordinary commercial channels. A memorandum on rural credit submitted to us by the Canadian Bankers' Association referred to the matter of intermediate credit in the following terms:—

> "Assuming that the need for credit in this form is clearly a matter of sufficient national importance to warrant some action being taken by the authorities, consideration should be given to the creation of an institution financed on the public credit and to the placing upon it of the responsibility for meeting all legitimate demands."

246. Several suggestions have been made as to the most suitable facilities for providing this form of credit. The committee representing the Governments of the Prairie Provinces has suggested the extension of the existing Rural Credit Societies of Alberta by appropriate legislation of the Dominion Government; the Canadian Bankers' Association has suggested the formation of a Dominion Intermediate Credit Corporation with capital partly subscribed by each province in which it was asked to operate; while a suggestion, which has much to commend it, has been made that the scope of the Canadian Farm Loan Board might be extended to enable it to make short or intermediate term loans.

247. The material placed before us on this subject in the course of our inquiry is not sufficient to enable us to make a specific recommendation as to the precise form which such an organization might take. But we are satisfied that the need is a real one. We therefore recommend that the Dominion Government, preferably with the co-operation of the Provincial Governments, should forthwith institute a special investigation into the whole problem of the provision of short and intermediate rural credits with a view to the preparation of an adequate and comprehensive scheme for submission to Parliament.

# CHAPTER VII

## MISCELLANEOUS QUESTIONS OF BANKING PRACTICE

248. Having considered in the preceding chapters how far it is desirable to make any additions to or changes in the existing financial equipment of Canada, we now pass to the consideration of a series of topics raised in the course of our inquiry with regard to the working of the chartered banks under the present system. These topics, which relate to the ordinary administration of the banks, are of a different order of magnitude from such questions as that of the institution of a central bank, but from the amount of evidence which we heard regarding them, it is manifest that some of them at least are matters of much concern to considerable numbers of the banks' customers.

(*a*) *Rate of Interest on Loans: Bank Act Section 91 (1)*

249. Subsection 1 of Section 91 of the Bank Act provides as follows:—

> "The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding seven per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable."

Much controversy has centred round this enactment both as regards its precise effect and as regards its expediency. The public have read it as a prohibition against the charging by the banks of interest or discount in excess of seven per cent on loans and this would appear to have been the intention of Parliament. While seven per cent has since first May last become the recognized rate for loans to farmers in the West, it is the case that the banks have been in the practice of stipulating for eight per cent or a higher rate where they thought that the risk warranted such charges. They appear to have thought that they were justified in doing so by the decision of the Privy Council in *McHugh vs. Union Bank of Canada* [1913] A.C. 299. In that case their Lordships no doubt refused to allow past settled transactions in which eight per cent had been paid to be opened up. This was because of the well-known legal principle that money paid under error in law is not recoverable. But the decision gives no countenance to the idea that a charge of interest or discount in excess of seven per cent is ever legitimate under the statute. The opinion of their Lordships as expressed by Lord Moulton (at p. 316) was "that the express provisions of the first portion of this clause rendered it ultra vires on the part of the bank to insert in the chattel mortgage of May 28, 1907, the stipulation that interest should be payable at the rate of eight per cent and that therefore that stipulation is inoperative." An illegitimate charge is not rendered legitimate by reason of the fact that if it has actually been paid it may be irrecoverable.

250. The banks appear to have taken the view that if a client agrees to a higher rate than seven per cent and actually pays it, so as to render the payment irrecoverable, the transaction is legitimate and by acting on this view have laid themselves open to the allegation that they have been evading the law.

251. As regards the future we are of opinion that the choice lies between either repealing the subsection altogether or so recasting it as to put it beyond doubt that it is illegal to stipulate for more than seven per cent interest or discount; if the latter course is adopted a penalty for contravention should be imposed.

252. On the one hand, in support of the retention of the provision, it has been argued that the purpose which Parliament had in view in originally enacting the subsection still subsists; that the banks should not make loans involving such risks as to warrant the charging of more than seven per cent; that higher rates than seven per cent constitute a burden too heavy for agricultural activities to bear; that although competition exists in the services extended by the various banks it is not manifest in the rates of interest demanded from borrowing customers, particularly from those engaged in agricultural pursuits and that in consequence Parliament was justified in enacting a maximum rate of interest. On the other hand, in support of the repeal of the provision, it has been argued that there are circumstances in which, if regard be had to the risk and to the cost of providing credit, a charge in excess of seven per cent is warranted; that the enforcement of a rigid maximum loan rate of seven per cent would so restrict business as to necessitate the closing of a large number of small branches, especially in newly-settled districts, and thus deprive many communities of banking services except at the expense and inconvenience of long journeys; that a charge of, say, one per cent in excess of seven per cent is a small matter to the customer, representing only two and a half dollars on a loan of five hundred dollars for six months while to the banks it may make cumulatively the difference between being able to carry on a branch in a particular district or closing it down; that in 1854 all usury statutes were repealed in Great Britain and the principle of restricting rates of interest abandoned, as being ineffective and inexpedient in the public interest; that if the banks were unable to lend at rates over seven per cent where such charges were justifiable in view of the risk, many borrowers, owing to the banks' inability to accommodate them would be driven to money-lenders not under the same restriction; that to deprive borrowers, who are willing to pay more than seven per cent where such charges are justifiable, of the opportunity of obtaining loans from the banks would restrict their freedom and often prevent them from engaging in profitable enterprise.

253. We have carefully weighed these considerations but unfortunately have not been able to reach agreement as to the recommendation which we should make. Four of us (The Chairman, Sir Charles Addis, Sir Thomas White and Mr. Beaudry Leman) are of opinion that a statutory maximum rate of interest is nowadays anomalous and an undesirable interference with freedom of contract, and that the provision of the Bank Act limiting the rate of interest to seven per cent, whatever justification it may originally have had, ought now to be repealed. Mr. Brownlee is of opinion that the statutory maximum still serves a useful purpose, that adequate reasons for repealing the section have not been adduced and that it ought to be retained. The result is that by a majority, we recommend the repeal of the provision in question.

*(b) Discrepancy between Periods of Loans and Farmers' Requirements.*

254. The discrepancy between the currency of loans and the period of the farming operations which the loans are intended to finance was represented to us as being a source of inconvenience and irritation to the borrowers, and complaint was also made of the practice of compounding interest, thus increasing the interest charges. It is acknowledged that the common practice of the Canadian banks has been to take notes maturing in three or four months, although repayment was not expected before six to twelve months. In justification of this procedure, the banks have emphasized that it was necessary to ascertain from time to time that their position had not been prejudiced by acts of the borrower, inasmuch as farmers' notes were almost invariably unsecured.

255. With regard to the compounding of interest, the banks argued that it has been their general practice to discount notes, and that this custom is world wide and not peculiar to Canada; that if only simple interest is collected at

maturity of a loan represented by a series of bills discounted and renewed from time to time this amounts merely to a reduction in the rate, and a small one at that; that actually it is more expensive for a borrower to discount a long term note than to discount short term notes and obtain renewals thereof, interest being compounded.

256. It would seem reasonable to expect that the banks catering for the needs of a farming community whose normal operations require six, nine or twelve months' credit facilities, should endeavour to accommodate their practice to the legitimate requirements of their customers. But it must be recognized that, having regard to the diversity of the requirements of borrowers in different industries and different localities, it would be well-nigh impossible to place a statutory obligation upon the banks to lend upon terms of repayment at a date likely to coincide with the realization of the venture for which the money was borrowed. Matters of this kind can better be adjusted through mutual goodwill, with such moral suasion as may be exerted through some central authority duly qualified to exercise a regulating influence. We may add that in our view the banks would be well advised in the case of satisfactory customers to endeavour to meet their wishes and convenience in this matter.

*(c) Charges for (i) Operating Accounts; (ii) Collecting Cheques.*

257. (i) Subsection 4 of Section 91 of the Bank Act reads as follows:—

> "No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer."

Representations were received to the effect that charges had been made by banks without the express agreement of the customer. One instance only of irregular practice was brought to our notice where the letter intimating the intention to make a charge did not explain that this could only be done by agreement. It is acknowledged by the Canadian Bankers' Association that if the requirements of the statute are inadvertently overlooked by some branch manager, the customer is entitled to obtain a refund of any charge made. The wording of the provision of the Bank Act appears to be clear, and its purpose unmistakable. We were assured that the case brought to our notice was entirely exceptional and that steps would be taken to see that there was no recurrence of it. The reasonableness of the banks making by agreement charges for services rendered in administering active accounts, when the customer offers no collateral or compensating advantage to the bank, has been recognized by the Bank Act, and rightly so. Any other mode of procedure would result in the shifting of the costs of performing certain services from one class of customers to another class.

258. (ii) Some complaint was made to us regarding charges for collecting cheques. A bank however cannot undertake the encashment or collection of cheques, whether drawn upon its own branches or those of other banks, without incurring expense for postage, stationery, clerical work and the maintenance of clearing houses and messenger services. Moreover, it is the custom in Canadian banking to give credit in the books of the bank at the date of deposit of all cheques, whether these are drawn on the bank's own branches or on branches of other banks. Responsible customers thus obtain immediate use of the funds represented by these cheques although in the case of those drawn upon branches at distant points several days may elapse before the bank itself receives the funds which it has put at the disposal of its customers. When charges for the encashment of such cheques are waived it is tantamount to making advances to the depositors without any interest charge.

259. Many customers in Canada are granted what are known as "par privileges," whereby a bank agrees without charge to accept cheques drawn on its branches and to encash at its various branches the cheques issued by a customer. In such cases the bank at present receives compensation by requiring the customer to maintain substantial non-interest-bearing deposits proportionate to the number of cheques deposited or encashed.

260. The advantages of extending par privileges to all customers of all banks is widely recognized in other countries. It facilitates trade and, by encouraging the use of cheques, economizes the use of currency. It also elminінates the trouble and irritation involved in a multitude of minor charges. For these reasons the Canadian banks might well consider whether it would not be in their interests and in the interests of the country to extend general par privileges and to recoup the consequent expense by extension of the custom of making charges by agreement for carrying active accounts and by restriction of the use as chequeing accounts of savings deposits upon which interest is paid. It should be understood, however, that this change would involve the postponement of credit-dating to correspond with the time necessary to encash the cheque.

(d) *Rates of Interest on Loans to Provincial Governments, Municipalities and School Boards.*

261. In this connection it has been represented that too great a spread exists between the rates of interest paid by the banks to depositors or to the Government under the Finance Act and those asked by the banks on their loans. The question of the spread between rates paid and received by banks has been under discussion in a great many countries and for a very long time. A number of considerations have been submitted to us in explanation.

262. The rates on loans are based on the interest paid on deposits, plus the cost of operation, plus the cost of the risk involved. All three elements must be taken into account, hence the difference between one region and another, and between one customer or class of customers and another.

263. The purpose of the Finance Act is to increase or decrease, as conditions develop, the cash reserves of the banks or the currency needed to carry on the business of the country. It was not designed as a lending agency for the benefit of the banks.

264. The Dominion notes advanced to the banks represent a small proportion of the loans made by them as evidenced by the figures submitted to us. The average ratio of advances under the Finance Act to the total loans of the banks were:—

| | | |
|---|---|---|
| In 1926 | 0·74 per cent | |
| " 1927 | 0·84 " " | |
| " 1928 | 2·28 " " | |
| " 1929 | 3·32 " " | |
| " 1930 | 1·04 " " | |
| " 1931 | 0·49 " " | |
| " 1932 | 1·77 " " | |
| " 1933 | 3·32 " " | (up to date) |

265. The funds obtained under the Finance Act should not be segregated from the banks' entire volume of loans. If the banks were to lend to Governments or other public bodies at the rate paid on deposits, or at the rate charged by the Government for advances under the Finance Act, without the necessary additional charge, it would be tantamount either to placing upon the banks a large share of the burden of carrying on the public and social functions which the various communities decide they are entitled to, or else to shifting this burden onto other borrowers. If, on the other hand, the Government were to issue

Dominion notes to finance the requirements of Provincial Governments, Municipalities and School Boards, it would engage in a dangerous policy. In this respect it should be noted that, in accordance with the return of the chartered banks to the Government for the month of July, the advances of the Canadian chartered banks to Provincial and Municipal Governments amounted to $152,-511,000.

(e) *Investment Business and the Banks.*

266. The Investment Bankers and representatives of a number of Boards of Trade have strongly urged upon us that banks should be prohibited by statute from dealing in securities, save as regards purchases and sales for the banks' own portfolios. It has been suggested that the banks should be restrained from selling securities directly to the public and also from tendering for new issues, either individually or as members of syndicates, and from acting as agents in connection with issues made by Governments, Municipalities and other public bodies. There is apparently no exception taken to the banks acting as agents, through their numerous branches, for the distribution of securities, receiving a commission for such services, or to their sharing commissions with the bond dealers when purchasing orders are received from clients; provided in both cases that the source of supply of the securities sold to the public be the issuing body or the investment bankers.

267. In answer to these representations, it is pointed out by the banks that dealing in securities is a recognized normal activity of banks throughout the world, and that in Canada the right of a bank to conduct such operations was established in 1876; that the revision of the Bank Act of 1890 and subsequent revisions (including that of 1923, subsection (1) (*c*) of section 75) authorized a bank to "deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes and other negotiable securities, or the stock, bonds, debentures and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, Provincial, British, foreign and other public securities," and under subsection (1) (*d*) to "engage in and carry on such business generally as appertains to the business of banking." "Banking business" was defined in 1918 in Great Britain by the Board of Trade after consultation with the Treasury as follows:—

> "'Banking business' means receiving money on current account or on deposit; accepting bills of exchange; making, discounting, buying, selling, collecting or dealing in bills of exchange, promissory notes and drafts whether negotiable or not, buying, selling or collecting coupons; buying or selling foreign exchange by cable transfer or otherwise; issuing for subscription or purchase or underwriting the issue of loans, shares or securities;........"

268. The banks have drawn attention to the valuable aid rendered to the Dominion Government in floating its loans during the Great War, and to the assistance given in the marketing of a large volume of public securities in the post-War period, including the National Service and 4 per cent Loans of 1931 and 1932. They have also drawn our attention to the fact that, when securities issued by public bodies run into many millions of dollars, their participation is necessary if firm bids are called for, and their assistance is always valuable to ensure wide and prompt distribution of the securities. It is manifestly in the public interest that Provincial Governments and Municipalities and other public bodies should obtain as high a price as possible for their issues and this can be better secured by active competition among bodies financially capable of making good their tenders. There seems to us no justification for legislative

interference with the practice which ensures keen competition and close tendering, and it follows that if the banks become, in whole or in part, the purchasers of such issues, they ought to be allowed to distribute them through their branches. From the point of view of the public, it has been pointed out that the banks have hundreds of branches in small and remote communities where the investment houses do not have, and cannot maintain, offices.

269. While there is no doubt of the banks' right to deal in securities we could not fail to be impressed by evidence of abuses. It may be true that the volume of industrial or other securities sponsored and distributed by the banks may have been small in comparison with that of the governmental and municipal issues sold by them, but we, nevertheless, strongly urge upon the Canadian banks the advisability of refraining from dealing in, or distributing for their own account, any but the highest class securities available in the country, and more particularly those issued by Governments, municipalities and other public or semi-public bodies.

270. As regards trading in stocks we do not consider that the banks should act otherwise than as agents for their customers to place such orders as they may receive through the regularly constituted channels provided by the brokers and investment bankers.

### (*f*) *Section 88 of the Bank Act*

271. The question of the desirability of the retention of this much discussed section was among the topics raised before us. On the other hand we were urged to extend its provisions to certain additional items, namely silver foxes, fox pelts and fertilizers. The section is anomalous inasmuch as it contravenes the general principle of law that a borrower cannot pledge articles which he retains in his own possession. This principle affords a safeguard to creditors and is of importance in a trading community. We recognize that the section was introduced to meet the conditions of a developing country lacking accumulations of working capital and we are not satisfied that its utility is spent, although the time may come when the advantage of retaining it may well be questioned. We do not advise the repeal of the section but we do not think that it should be further enlarged.

### (*g*) *Alleged Subordination of Eastern and Western Interests to those of the Central area*

272. It was alleged that the boards of directors of the Canadian banks, who decide the general policy of the several banks, included too large a proportion of members domiciled in the Central Provinces and that accordingly the attitude of the banks was more sympathetic to Central than to Eastern and Western requirements. Representations were received to the effect that, under such a centralized system, applications for loans from Eastern and Western communities or business interests had to be passed upon by head office officials who were not sufficiently conversant with Eastern or Western conditions and who might be inclined to favour enterprises near at hand.

273. The banks have been most emphatic in denying these charges, and have submitted that their boards were as far as possible representative of the entire country, or at least of such parts of the country as provided a sufficient volume of business. The banks submit that for administrative purposes the branches are grouped into districts, generally by provinces, under the charge of a supervisor with authority to deal with all credits up to, say, $25,000. At certain points, where banks have committees of directors, the limit is still larger. We received evidence to the effect that, in the case of one bank having its head office in Montreal, out of thousands of loans made in the three Prairie Provinces 99·64 per cent were granted before reference to head office; whilst another bank reported

that 82·32 per cent of its loans in Alberta had been dealt with by the branch managers directly, that 16·47 per cent had been referred to the Calgary superintendent, leaving 1·21 per cent for approval by the Assistant General Manager in Winnipeg, and out of this 1·21 per cent only ·605 per cent had been submitted to head office.

274. The banks state that they desire to have on their boards leading business men from the districts where banking operations are on a sufficiently large scale, but that they must also take into account the distribution of their shareholders. It must always be borne in mind that it is permissible to establish a bank in any province or region of Canada under the Bank Act by the provision of the moderate capital of $500,000.

275. We do not see how this sentiment could be allayed by any form of legislation, but in view of the fact, which appears from a statement submitted by the Canadian Bankers' Association, that out of a total of 170 directors of all the chartered banks in Canada only two reside in the Provinces of Alberta and Saskatchewan, we commend to the attention of the shareholders of the Canadian banks that they should, in their own interest, consider the advisability of providing not only a fair but a generous proportion of directors from the eastern and western sections of the country and of further extending their local committees for the purpose of allaying any regional feeling of discrimination. Goodwill between the banks and the public in all parts of Canada is essential to the proper functioning of the banking system as well as to the promotion of national unity.

(*h*) *Bank Directorates*

276. Attention has been directed at several of our hearings to the fact that many bank directors are also directors of other corporations and it has been suggested that in consequence such corporations are specially favoured in the credit policy of the banks to the detriment of individual customers engaged in agricultural and the primary industries generally, as well as of traders with comparatively small credit requirements. It is also urged that such directors in voting as members of their boards upon credits to companies of which they are also directors occupy a position in which their interest would be in conflict with their duty to the shareholders of their banks.

277. As to the first of these suggestions it is to be observed that no evidence has been adduced before us showing that there has been such discrimination in banking policy and that as banks are engaged in nation-wide business they naturally desire to have upon their boards men engaged in large enterprises, who are thus in a position to bring to their respective banks profitable business in the form of deposits, loans and exchange.

278. In addition to this important consideration boards of directors are mainly concerned with the policy of their banks rather than with the day to day routine administration. Moreover as the field of banking is coextensive with the entire economic activities of the Dominion it is necessary that members of Boards of Directors should be men of affairs, actively engaged in business enterprise or having at least wide knowledge of commercial and financial conditions. It would seem unwise therefore to restrict membership in bank directorates to those who are not directors of other corporations. It must be left to the sense of propriety of directors not to place themselves in a position where their interests may conflict with their duty or which may justifiably attract unfavourable comment.

279. We agree, however, that directors should not vote or be present at meetings of their boards when credits to themselves or any firms or corporations of which they are partners or directors are under consideration, and we are informed that most of the banks have by-laws to this effect, which in practice are strictly obeyed. We suggest that all banks should have such a by-law.

(i) *Bank Profits*

280. Some allusion was made at our hearings to the amount of profits earned and the dividends paid to shareholders by the banks. It does not seem necessary to discuss this question in great detail as the figures presented to us giving the record of earnings and dividends over the last ten years indicate clearly what the position is.

281. The average paid-up capital, reserve and undivided profits, constituting the shareholders' investment, was $268,158,153 during the years 1923 to 1932 inclusive, made up as follows:—

| | |
|---|---|
| Average paid-up capital.................... | $123,605,663 |
| Average reserve fund ........................ | 137,370,735 |
| Average undivided profits .................. | 7,181,755 |
| | $268,158,153 |

282. It should be noted that the reserve funds have been constituted, in part, from cash received from shareholders as premiums on capital stock issues. Of the present reserve funds, 42 per cent has been derived in this manner, 34 per cent has been made up from profits accumulated throughout the respective periods of the banks' lives and 24 per cent was added in connection with the purchase of assets of other banks.

283. The average net annual profit available for dividends, 1923 to 1932, was $17,064,957, which is the equivalent of 6·36 per cent on the average shareholders' investment. The dividends paid averaged $15,919,384, which is equal to 5·93 per cent of the average shareholders' investment.

284. Since 1930 all bonus dividends have been discontinued by the Canadian chartered banks and the regular dividends have been decreased by 4 per cent per annum in the case of four banks, 3 per cent in the case of another, and 2 per cent in the case of three other banks.

285. In coming to any conclusion as to whether or not the returns to Canadian bank shareholders have been reasonable, having regard to the earnings which might be secured upon capital invested in other enterprises or in Governmental, municipal or high grade industrial securities, note must be taken of the double liability which attaches to the shareholder's participation and also to the desirability that there should, from time to time, be a ready flow of money available for bank capital.

(j) *The Decennial Revision*

286. On the one hand it has been suggested that the banks' charters should be rendered perpetual and that the banks should not be subjected to the recurrence every ten years of the disturbing process of revision of the Bank Act. On the other hand it has been suggested that revision should take place at shorter intervals. No adequate reason has been adduced before us for altering the existing practice.

(k) *The Statutory Returns*

287. We have received both from Mr. Coats, the Dominion Statistician, and from a committee under the chairmanship of Professor Jackson, suggestions as to the improvement of the various statistical returns which the banks are required to make. This is a matter of detail and largely non-controversial, and in our view is more appropriate for consideration by the Department of Finance, preliminary to the inquiry before the Standing Committee on Banking and Commerce to which the revision of the Bank Act will doubtless be referred by Parliament.

(l) *Banks and Insurance Business*

288. We heard some evidence on behalf of insurance agents to the effect that the banks were engaging in or influencing insurance business and so invading their sphere. The Bank Act is quite explicit on the subject. Section 75 (3) provides that:—

> "No agent or manager of any bank shall act as agent for any insurance company or for any person in the placing of insurance, nor shall any bank exercise pressure upon any borrower to place insurance for the security of such bank in any particular insurance agency . . . ."

289. The suggestion made was that the provisions of the statute were indirectly evaded. The Bankers' Association assured us that the banks took all steps to prevent the infringement of the statute by their agents or managers and that if any case of non-observance of the statute were reported it would be duly dealt with. From the public point of view there is the further protection of the Provincial legislation regarding the licensing of those engaging in insurance business. We do not think that any additional statutory protection need be accorded to the insurance agents other than the Bank Act and the Provincial legislation already afford.

(m) *Restriction of Deposits by Married Women*

290. At Montreal a special point affecting the rights of married women in the Province of Quebec was brought to our notice by the Canadian Alliance for Women's Votes. Section 95 of the Bank Act which authorizes a bank to receive deposits from, and to repay deposits to, persons under legal disability provides in the third subsection as follows:—

> "If the person making any such deposit could not, under the law of the Province where the deposit is made, deposit and withdraw money in and from a bank without this section, the total amount to be received from such person on deposit shall not at any time exceed the sum of two thousand dollars."

291. As, under the law of the Province of Quebec, a married woman could not, apart from section 95, deposit or withdraw money without her husband's consent, the effect of the subsection just quoted is that in this Province a married woman cannot without her husband's consent deposit more than $2,000 in a bank. Apparently under the Dominion Post Office legislation a married woman is under no disability as regards the amount which she may deposit in the Post Office Savings Department, and may make deposits up to the limit of $5,000 which applies generally. We were asked to recommend that in the case of married women in the Province of Quebec the limitation on deposits in the banks to $2,000 should be removed and an unlimited right of deposit conferred, without the requirement of the husband's consent. We think that this is a reasonable request and we recommend that section 95 (3) be amended accordingly.

# CHAPTER VIII

## CONCLUSION

292. We have now considered all the matters brought to our notice with which we can usefully deal within the scope of this Report. As we indicated at the outset, some of the topics discussed before us are not in our opinion appropriate for legislative treatment in the revision of the Bank Act, and on such topics we have confined ourselves to comment and advice, confident that what we have said will receive due consideration. Our operative recommendations are consequently few in number.

293. By a majority (The Chairman, Sir Charles Addis and Mr. Brownlee; Sir Thomas White and Mr. Beaudry Leman dissenting) we recommend that a central bank for Canada be forthwith established.

294. We unanimously recommend that an inquiry be instituted by the Dominion Government, preferably with the co-operation of the Provincial Governments, to investigate the existing organizations for the provision of rural credit with a view to the preparation of a scheme for the consideration of Parliament.

295. These are our two recommendations with regard to the improvement of the Canadian financial structure.

296. Our recommendations with regard to the existing administration and practice of the Canadian chartered banks will be found in Chapter VII under the appropriate headings.

297. On certain topics Mr. Brownlee desires to add some further observations and these will be found in an Addendum attached to our Report.

298. In addition to the tables printed in preceding chapters, we have also printed in the appendix a number of other tables and statements which seemed to us likely to be useful to those who are interested in our subject.

299. We cannot conclude our task without expressing our indebtedness to all those who by their evidence or their written communications have been at such pains to lend us assistance. Among many useful contributions which we have received we may be allowed to refer, on account of its representative character, to the brief submitted by the Canadian Chamber of Commerce. In reaching our conclusions we trust that we have given due weight to all the representations laid before us. It may not be out of place to express here our high appreciation of the courtesy with which we were received, indeed welcomed, by the Governments of the Provinces and of the ready help which they extended to us in our investigations.

300. To our secretaries Mr. Roberts and Mr. Plumptre, who have discharged their arduous duties under circumstances of unusual difficulty and pressure, we owe no ordinary gratitude for their unfailing devotion to duty and their resourceful assistance.

MACMILLAN,
*Chairman.*

C. S. ADDIS.

W. T. WHITE.*

J. E. BROWNLEE.

BEAUDRY LEMAN.*

B. J. ROBERTS,
*Secretary.*

A. F. W. PLUMPTRE,
*Assistant Secretary.*

OTTAWA, 27th September, 1933.

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* Subject to dissent on certain matters as set out in his memorandum attached.

# ADDENDUM

## By SIR THOMAS WHITE

PARAGRAPHS 141 TO 148, INCLUSIVE, CHAPTER III OF THE FOREGOING REPORT

## BANK DEPOSITS

I regard the treatment of this subject in the above-mentioned paragraphs of the Report as incomplete by reason of omission to emphasize the fundamental economic factors affecting the aggregate of bank deposits from time to time.

The two major causes of variation in the volume of deposits are bank loans and purchases of securities by the banks. Bank loans come into existence through the initiative of borrowers who believe they can employ profitably the funds obtained. Bank loans, therefore, and with them the aggregate of bank deposits, increase in periods of active demand for commodities and of rising prices. Conversely, both diminish in periods of declining demand and falling prices. In both cases the volume of agricultural production due to good or bad harvests plays a most important part. Another factor is confidence, or lack of confidence, in the financial stability of the nation. Security purchases by the banks on the other hand are made on the initiative of the banks themselves. Subject to the maintenance by the banks of the level of security holdings considered necessary as part of their secondary reserves, further purchases of securities will be made from surplus cash reserves only if good loans are not available, since such loans result in more profitable employment of funds. To maintain normal cash reserves, banks, if their security holdings exceed the minimum deemed essential, will sell securities rather than restrict good loans.

The influence of the economic factors above named is well shown in official statistics relating to both demand and notice deposits by the Canadian public during the past twenty years. On 30th June, 1914, demand deposits by the Canadian public totalled in round figures three hundred and fifty-five million dollars. By 1920, due to the War and early post-War activity—a period of rising commodity prices and rapidly expanding national production—the aggregate had reached six hundred and fifty-nine millions. In the same period and due to the same causes notice deposits rose from six hundred and sixty-three millions to twelve hundred and forty-three millions and in 1921 to thirteen hundred and eight millions. In the post-war period 1920-1925, inclusive, owing to the sharp decline in world commodity prices, the volume of demand deposits by the Canadian public fell from the maximum of six hundred and fifty-nine millions mentioned above to four hundred and ninety-five millions, while the aggregate of notice deposits diminished from thirteen hundred millions in 1921 to twelve hundred and fifty-three millions in 1925. The succeeding period 1926 to 1929 was featured by a vast economic and financial expansion in Canada, caused by bountiful harvests and good prices, the great volume of borrowings in the United States by Canadian Governments, municipalities and private corporations and the concurrent influx of American capital seeking permanent investment in Canadian industrial enterprise. It was also featured by an unprecedented wave of stock speculation which swept both Canada and the United States. The resultant effect of all these factors is clearly shown in the expanding volume of Canadian bank deposits. Demand deposits increased from four hundred and ninety-five millions in 1925 to six hundred and seventy millions in 1929 and notice deposits from thirteen hundred and twenty-eight

millions in 1926 to fourteen hundred and sixty-six millions in 1929. Then came both in Canada and the United States the culmination of this period of over-borrowing and over-expansion of credit and the "boom" collapsed in the autumn of 1929. There followed inevitably the period of severe depression which has lasted to the present time although there has been a certain degree of recovery during the past year. In this period, characterized as it has been by a disastrous fall in the price level of commodities in all markets of the world and a practical cessation of Canadian borrowing abroad except for the purpose of renewing maturing loans, we find as we should expect a marked decline in the amount of Canadian bank deposits. The aggregate of demand deposits fell from six hundred and seventy millions in 1929 to four hundred and eighty-eight millions in 1932. On 30th June, 1933, they showed an increase to five hundred and thirty-five millions—one of the evidences of recovery above noted. Following a like course, notice deposits decreased from fourteen hundred and sixty-six millions in 1929 to thirteen hundred and seventy-three millions in 1932 and increased during the succeeding year to thirteen hundred and eighty-six millions.

It is to be observed that during the entire period 1914-1933 covered by this review the cash reserves of Canadian banks were maintained on a percentage ratio to deposit liabilities in keeping with the standard practice of banks of the leading commercial and financial nations of the world.

As bearing also upon this subject it may be observed that while deposits are a medium of exchange as stated in the Report, their economic importance depends largely upon the velocity with which they are turned over. Dormant deposits represent potential but unused buying power. It is interesting to note that, taking 1926 as a base, the velocity of Canadian bank deposits (expressed as a ratio of reported bank debits to total deposits) fell from a peak in October, 1929, of 153 per cent to 94 per cent in October, 1932, while the total volume of bank credit in Canada (loans plus security holdings) in the same period fell only from approximately 141 per cent to 118 per cent.

I feel justified in dealing with this subject in some detail because of the possibility of misunderstanding on the part of readers of the Report as to the respective degrees of influence exerted by fundamental economic factors and by banking technique upon the volume of Canadian bank deposits.

W. T. WHITE.

OTTAWA, October 3, 1933.

# MEMORANDUM OF DISSENT

## By SIR THOMAS WHITE

### The Finance Acts, 1914 and 1923

I respectfully dissent from many of the statements and conclusions contained in Chapter IV of the Report and particularly those relating to the administration and operation of the Finance Acts of 1914 and 1923 during the war and post-war periods respectively. The paragraphs of the Report dealing with these matters are numbered 188 to 195 inclusive. In paragraph 190 it is correctly stated "that the Dominion Government did not attempt to use the Dominion note issue to any extent as an agency of inflation." The further statement that the Finance Act "may be said to have been the efficient agent which made effective the policy of inflation which Canada, in common with all belligerent countries, followed" requires qualification. It is true that there was credit inflation arising from the volume of Dominion borrowings for war purposes, through issues of bonds subscribed by the Canadian public. But there was on the part of the Government no "policy of inflation." Credit inflation automatically and inevitably occurred owing to the need of financing the Government's own war expenditures in Canada and of providing the British Government with the necessary funds to pay for the vast amount of foodstuffs, munitions and other products purchased in Canada and required by Britain and her allies in the prosecution of the war. In respect of these advances to the British Government aggregating more than twelve hundred million dollars it is to be observed that conversely that Government made advances in sterling in London to the Canadian Government to meet the expenditures of the latter in maintaining the Canadian forces abroad. On balance at the end of the war the British Government owed the Canadian Government two hundred and twenty million dollars which was duly paid.

In connection with this subject of credit inflation it may be pointed out also that the prices of munitions, wheat and certain other commodities were fixed at high levels (in conformity with those prevailing in the United States) and that, owing to war demand, general prices in Canada were continuously forced upward and national production greatly expanded. In these conditions and having regard to the suspension of the gold standard in all the great nations of the world except the United States, the Finance Act instead of being an instrument promoting a policy of credit inflation served with the highest efficiency the purpose of providing in conjunction with the note issues of the banks adequate currency facilities for the financing of the rapidly mounting volume of Canadian agricultural, industrial and commercial production and trade. It is my belief that no central bank in the world during the war period functioned more smoothly or was capable of being utilized more promptly or with greater immediate effect in serving the purposes of national and business finance than the Canadian Finance Act of 1914. It is also my view that during the period in question and in the very trying period of so-called reconstruction following the Armistice no other monetary system proved more efficient or better adapted to national needs than that of the chartered banks of Canada supplemented as it was by the provisions of the Finance Act of 1914. The advantage of that system to the Government of Canada, in making its issues of bonds to the Canadian public and of having immediately available through the agency of the Canadian Bankers' Association the facilities afforded by the chartered banks with their thousands of branches throughout the Dominion needs only to be

mentioned to be realized and appreciated. And in my opinion the same high degree of efficiency has been maintained by the Canadian financial system down to the present time. Of this statement we have at least partial proof in the stability of that system during the unprecedented world depression of the past four years.

In paragraph 191 of the Report reference is made to the depreciation in the value of the Canadian dollar following the conclusion of the war. This depreciation was not of course confined to Canada but was common to the currencies of all nations engaged in the war except the United States, whose participation was for a less lengthy period than that of the other great nations. During this immediate post-war period the Canadian dollar stood at a higher gold exchange value than that of the currency of Britain or of any other Dominion of the Empire and much higher than that of any of the currencies of the Continental belligerent nations. One of the reasons for this strength in Canadian exchange was that Canada had come through the war without having incurred a net indebtedness either to Great Britain, the United States or any other nation. Canada's war debt was owed almost exclusively to the Canadian public who had subscribed the various issues of securities made by the Government to meet war expenditures. The Finance Act was in no wise responsible for the fall in the Canadian dollar in the immediate post-war period.

I also respectfully take exception to the statements contained in paragraph 195 relating to the administration of the Finance Act of 1923 in the period following the resumption of the gold standard by Canada in 1926. One of these statements is as follows: "An examination in the light of contemporary conditions of the rates charged from time to time on Finance Act advances suggests that these rates were not used as an instrument of credit expansion and contraction but were mainly varied to meet the exigencies of the Dominion Government's finances." With respect to this suggestion, it need only be pointed out that the rates charged on the advances referred to were practically in keeping with the rediscount rates of the Bank of England and (which is a much fairer basis of comparison so far as concerns Canada) with those of the New York Federal Reserve Bank during the period in question. The following tables show the comparative rates from 1926 to 1930:—

| | Canada | Bank of England | New York Federal Reserve Bank |
|---|---|---|---|
| 1926 .. .. .. .. .. | 4¼% | 5 % | 4 %, 3½% and 4 % |
| 1927 .. .. .. .. .. | 4¼%, 4%, 3¾% | 4½% | 3½% |
| 1928 .. .. .. .. .. | 3¾%, 5%, 4½% | 4½% | 4 %, 4½% and 5 % |
| 1929 .. .. .. .. .. | 4½% | 5½%, 6½% 6%, 5½% and 5% | 6 %, 5 % and 4½% |
| 1930 .. .. .. .. .. | 4½% | 4½% | 4% |

Even if the suggestion were correct that Canadian rates "were mainly varied to meet the exigencies of the Dominion Government's finances," the Dominion Government's action would not have been in any way singular or open to criticism. The rediscount rates of both the Bank of England and of the Federal Reserve Bank System of the United States have been frequently and properly fixed to meet the exigencies of their respective Governments' finance such as for example to enable issues of Treasury Bills, or of long term securities to be made at low interest yield rates for temporary or refunding purposes. It is Central Bank practice in all countries to regard Government exigencies as a factor in the fixing of discount rates when occasion so requires. In Canada whether a Central Bank is established or the Finance Act is retained the rediscount rate in the one case and the rate on advances in the other will be bound to be affected by the need of the Government to obtain short or long term money as cheaply as possible and to provide funds at a reasonable rate to aid the financing of the movement of the Western wheat crop. These in my opinion

have been the two main factors affecting the rates charged for advances under the Finance Act from 1926 down to the present time.

It is possible, as stated in this paragraph, that "rates on advances under the Finance Act were not used as an instrument of credit expansion and contraction." The rates of rediscount quoted above show that in the result (no matter what the intention) the rates charged by the Treasury Board were kept fairly uniform with those of the Bank of England and of the Federal Reserve Bank of New York which presumably were employed (partially at least) as "instruments of credit expansion and contraction." It must be borne in mind, however, that it is only in large international financial centres, such as London, Paris and New York, that a rise or fall in rediscount rates exerts an important effect upon credit expansion or contraction. An examination of the borrowings of Canadian banks under the Finance Act shows such a slight percentage (1 to 3%) of the aggregate of such borrowings to the total volume of Canadian bank credits including security holdings that the rate charged upon such advances could have had no appreciable effect unless, of course, it had been raised so much higher than the London and New York rates as to cause a violent contraction of credit and a rise in the interest rates charged to the entire agricultural, commercial and financial community. Such an increase in rate could not, having regard to public opinion, have been put in effect by any reserve institution that might have existed in Canada at the time. There is another aspect of the matter. It is implied that the officials of a Central Bank, had there been one in Canada at the time, would have wisely discerned that expansion or contraction of credit was needed and would have acted accordingly. This inference finds no warrant in the action taken from time to time throughout the Federal Reserve System of the United States where conditions during the period in question were similar to those which prevailed in Canada. The fact is that "the light of contemporary conditions" mentioned in the paragraph referred to seems to shine clearly only in a subsequent period when the conditions have themselves become a matter of history. The managers of Reserve institutions are no wiser than other financiers and possess no greater insight into conditions or prescience as to their outcome than the general mass of contemporary business men. The assumption that supermen may be found who can diagnose an era and wisely control expansion or contraction of credit (save in international financial centres such as London) is not in my view well-founded. We can all see more clearly in retrospect. The real check upon undue expansion of the currency issued under the Finance Act is the caution exhibited by the banks themselves. They have always been sparing in their resort to its privileges and pay off their advances as quickly as possible. There is a twofold reason for this policy: firstly because they do not desire to continue to pay interest any longer than necessary and secondly because they do not care to incur or to show in their returns heavy indebtedness in respect of advances under the Act. Although it may be technically correct that "the Finance Act did not provide Canada with the organization needed to undertake the tasks which the maintenance of the restored gold standard implied," the fact is that in conjunction with the policy followed by the banks the Canadian monetary system worked quite as efficiently as the Central Bank systems of nations economically similar to Canada.

It was suggested during the course of our hearings that political influence might possibly affect unfavourably the administration of the Finance Act because the Treasury Board which authorizes advances and fixes rates of interest payable thereon is composed of members of the Government. With regard to this I have only to say that if by "political influence" is meant partisan or improper influence not a shred of evidence has been adduced before the Commission in support of such a suggestion. The fact is that authorization of advances under the Act is an almost purely routine matter of administration

carried out by the Treasury Board, aided by the recommendation of the Minister of Finance and the advice of his chief officials. I have no hesitation in asserting that the administration of the Finance Acts under all Governments has been wholly free from any such influence. If, however, it should be deemed expedient by Parliament to limit the aggregate amount which may be borrowed by the banks under the provisions of the Finance Act or make the Governor General in Council instead of the Treasury Board immediately responsible for fixing such aggregate from time to time and the rates of interest to be charged upon advances, legislation to that end may of course be readily enacted. Should it be the opinion of the Minister of Finance that he requires additional expert assistance to that available in his Department he might appoint as a permanent member of his staff an outstanding economist whose special duty it would be to continuously study the economic and banking situation in Canada. Such an official together with the Deputy Minister of Finance (himself a distinguished economist) and the Inspector General of Banks would constitute a most competent Departmental Committee to advise the Minister and the Treasury Board upon all applications for advances by the banks. Personally, if any change is made in the existing mode of procedure, I would prefer such a permanent Departmental Advisory Committee to an independent Board created for the purpose of control and regulation of credit through the administration of the Act. It may be of interest to the public to know that since the enactment of the Finance Act in 1914 the Dominion Government has received a total revenue, by way of interest charged the banks upon advances, of $22,782,602, with practically no additional cost to the Department of Finance.

### The Establishment of a Central Bank

Upon this most important question which involves consideration of structural change in Canada's monetary system I regret to find myself in disagreement with a majority of the members of the Commission. With my colleague, Mr. Leman, I dissent from their recommendation that "a Central Bank for Canada be forthwith established." The terms of our dissent are to be found in paragraph 238 of the Report and are as follows:—

> 238. Sir Thomas White and Mr. Beaudry Leman dissent from the arguments and conclusions contained in this chapter as to the need of the establishment of a central bank at the present time and under existing conditions and also as to certain features of the suggested constitution of such a bank should it at any time be established in Canada.

As Mr. Leman has in his memorandum set out the main grounds of our dissent I shall only make some general observations upon the subject in issue and call attention to certain features of the constitution of the proposed bank which I regard as open to criticism. I do not say that at no time in the future will a Central Bank be needed as an integral part of Canada's monetary system. It may well be that in the course of the evolution of that system such an institution may be found necessary and established. Even if I believed however (which I do not) that a Central Bank could now perform useful functions as a part of our monetary system, I would still entertain the view that the present is not a suitable time for its establishment. My reason for this conviction is that, without regard to the financial disturbance which would undoubtedly be caused by such a fundamental alteration in the structure of our monetary system, an institution of this kind would hamper rather than help the Government of the day in dealing with the manifold and complex financial problems with which it is confronted. A Central Bank, newly established, entrusted immediately with the ownership of the entire cash reserves of Canadian banks, and administered by a necessarily untried and independent Board of Directors clothed with the power of controlling currency, credit and security issues and charged with the

conduct of negotiations respecting our external public finance, could, I think, be only an impediment to the Government in this trying period, when direct unfettered Governmental action is manifestly required. I recall that the Union Government, of which I was a member in the reconstruction period following the Armistice—a period very similar to this—declined to consider favourably the establishment of a Central Bank for the reason I have expressed. Some of the financial problems to which I have alluded are the refunding of our outstanding loans, the flotation of new issues, whether in Canada or elsewhere, the sale of Treasury Bills, the management of an Exchange Stabilization Fund (should that hazardous experiment be tried) and such questions as reducing unemployment and raising the domestic price level through monetary action. In the solution of all these problems it is my belief that the existing banking system of Canada supplemented by the provisions of the Finance Act, affords the Government a much more efficient instrument than that system controlled and regulated by a newly-created Central Bank independent, in theory at least, even of the Government of the day. There are many signs of business recovery in Canada to-day. Structural alteration in our monetary system could hardly fail to retard, temporarily at least, such recovery.

I wholly agree with the view of the Canadian delegation and the other delegations of the Empire in formally stating, after the adjournment of the recent World Monetary and Economic Conference that "the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard." My conviction is that as the main trouble in the world to-day is debt—national, international, corporate and private—that none of the nations, no matter how self-contained they may suppose themselves to be, can possibly achieve recovery unless a reduced gold content of their various currencies is established (or has, as in the case of France, been established) and the leading nations are thus enabled to return to a gold standard which they can severally maintain. Such a return would mean the immediate stabilization of exchange, the end of the ruinous contest in depreciation in currencies, increase in volume of international trade and a reduction of debt obligations in terms of gold (without any change in their nominal value) to manageable proportions.

The international co-operation necessary to accomplish this desired end can I think be achieved only by direct negotiations of Governments with Governments. I have no confidence that international conferences of Central Bank officials, no matter how eminent they may be, whose respective Governments may overrule their decisions at any moment, can bring about the restoration of gold as the universal medium of exchange and so promote world recovery. With respect to some of the specific reasons put forward by a majority of the Commission in favour of the immediate establishment of a Central Bank for Canada, I summarize my observations as follows:—

(1) The fact that Central Banks have been created by numerous other countries is not a valid argument for the establishment of such an institution in Canada. In the case of most of these countries the exchange value of their currencies is lower than that of Canada and their national credit not nearly so high. Notwithstanding the existence of their Central Banks, conditions within their areas are not nearly so good as those prevailing in Canada. The question so far as Canada is concerned, must be considered in the light of our own situation and circumstances. A disturbing feature of the financial statements of several of the Central Banks established since the war is the unduly high ratio of floating Governmental debt to the aggregate of assets against which currency may be issued. In these cases the facilities afforded Governments of easy financing obviates the immediate necessity of balancing their annual budgets and leads to the invalidation of their credit and a continuous depreciation in the exchange

value of the currencies of their respective countries. The resulting loss of confidence makes it difficult or impossible for such countries to refund maturing issues at lower yield rates of interest.

(2) Expressions of opinion by international conferences no longer, I am sorry to be obliged to say, carry weight with the public in any part of the world. History records no more tragic futilities than the deliberations and resolutions of these all too numerous gatherings from the Treaty of Versailles to the present day.

(3) I respectfully dissent from the view that a Board of Directors, of a Central Bank, wholly independent of the Government of the day, should, in a country such as Canada where domestic prices so greatly depend upon world prices, be vested with the power to endeavour, at least, to influence the levels of economic activity and prices. I believe that any action they might take towards this end would be nugatory so far as concerned its purpose but fraught with grave potentialities for causing business disturbance through its indirect effects. My view is also that no Board of Directors, no matter how eminent its personnel, would be wise enough to be entrusted with such a duty.

(4) I do not regard the establishment of relationships between a Central Bank in Canada and Central Banks in other parts of the world or with the Bank for International Settlements as being of sufficient importance to warrant the expense of establishing and operating a Central Bank in Canada.

Now as to certain features of the constitution or "set-up" of the proposed Central Bank as recommended by the majority of the Commission:

(1) The proposed "set-up" apparently contemplates that vacancies caused by the retirement of directors in rotation should be filled by vote of the shareholders. If this is the case there would undoubtedly be active canvassing of shareholders for proxies to be voted on behalf of candidates seeking election to positions of such prestige and emolument. Vacancies in the directorate occurring from time to time should in my view be filled by the Governor-General in Council.

(2) The provision authorizing the Bank to become the banker for Provincial Governments (in which is implied a measure of control over the conduct of their financial operations and expenditures) is in my opinion unwise and likely to lead to undesirable friction between Provincial Governments which become customers of the Bank and the officials of the Bank and ill-feeling on the part of other Provinces which might continue to transact their financial business and issue their securities as at present under their sovereign authority to "borrow money on the sole credit of the Province" (Section 91, B.N.A. Act).

(3) I join with my colleague, Mr. Leman, in his strong criticism of granting to the Board of the proposed bank the power to carry their cash reserves either in gold or foreign exchange. He has pointed out the grave risk involved in relying to too great an extent upon the stability of such exchange and to the necessity for maintaining a 25 per cent gold reserve in Canada. I desire to express the view that on no account should the Board of a Central Bank, (upon whose wisdom in making investments the integrity of the Canadian currency would depend), be empowered to reduce the gold reserves of the Bank in Canada to a point below 25 per cent of its liabilities. By possibility, under such a power as is proposed of carrying foreign exchange as cash reserves, Canada might be stripped of all her gold reserves and sustain a very heavy loss in replenishing such reserves or in realizing such exchange, as did many Central and other banks when Britain and United States departed from the gold standard.

I earnestly trust that a Central Bank for Canada (if one is established) shall not be entrusted with the management of an Exchange Equalization or Stabilization Fund. The risk of loss to the Government in the operations of such a fund, no matter how skilful its management, must necessarily be very great in a period when the range of fluctuations in the relative value of world currencies cannot be foreseen not only by reason of the incalculable economic factors involved but also by reason of the uncertain and undeterminable factor of the constantly changing policy of foreign governments in respect of their currencies. It is also my view that a Central Bank for Canada should not be empowered, except with the approval of Parliament, to enter into agreements with other central banks which would undoubtedly, on account of their greater experience and wide sources of information, possess decided advantage in the negotiation of such agreements.

There is one observation which I feel I should make in concluding this Memorandum. The determination of the question of the advisability of the establishment of a Central Bank for Canada lies with the Government and Parliament of Canada. There may be considerations of policy relating to the promotion of intra-Imperial and international trade which may materially influence that determination of which the members of our Commission have and can have no immediate knowledge. We are not legislators. We make our recommendations and set out the reasons therefor upon the evidence adduced before us and having regard to our individual views of existing conditions in the hope that our Report may be of assistance to the Government and Parliament in dealing with the many important and perplexing questions which have formed the subject of our deliberations as Commissioners. It is with this conception of our duty and in this hope that all the members of the Commission have conscientiously and diligently applied themselves to the task assigned to them under the terms of our reference.

W. T. WHITE

OTTAWA, October 3, 1933.

# MEMORANDUM

## By HON. J. E. BROWNLEE

I have signed the Report of the Commission, without reservation other than my dissent from the recommendation of the majority of the Commissioners with reference to rates of interest on loans, Bank Act, section 91 (1) as stated in paragraph 253. I desire, however, to add some observations with respect to certain topics referred to in Chapter VII; to express my dissent from one recommendation with respect to the suggested constitution of a central bank as set out in Appendix I and to express briefly my views on one subject not considered in the Report.

1. Chapter VII

(a) *Rates of Interest on Loans to Provincial Governments, Municipalities and School Boards.*

While I do not dissent from the observations of the Commission on this topic, I feel consideration should be given to the complaint freely expressed to the Commission in Western Canada of the discrimination between the rates of interest charged on loans to Provincial Governments, Municipalities and School Boards in the Western Provinces, as contrasted with rates on similar loans in Eastern Canada. The evidence is clear that the rates on such loans are from $\frac{1}{4}$ to $\frac{1}{2}$ per cent higher in Western than in Eastern Canada. The reason given by the banks is that rates of interest must bear a relationship to the risks involved. It has also been suggested that the relative value placed on the bonds of the Western as compared with the Eastern Provinces by the investing public is a factor to be taken into consideration. On the other hand, it is clear from the evidence of the representatives of the Western subsection of the Canadian Bankers' Association in Winnipeg, that the Provinces in Western Canada may now be regarded as settled communities; that, despite adverse crop conditions in some areas, no losses have been sustained by the banks on loans of this nature and that the number of defaults by municipalities on their public obligations has not been large in contrast to other parts of Canada. It can hardly be argued that the cost of operation with respect to such loans is higher than in the Eastern Provinces. I think it may be argued that the attitude of the investor in public bonds is influenced in no small measure by the lead given by large loaning bodies such as the chartered banks. This is a matter, of course, that cannot be dealt with by legislation, but I desire to express my conviction that a very constructive step would be taken not only in removing the sense of unfairness that undoubtedly exists but also in assisting the general economic development of the West to the benefit of all Canada, if the banks could give a lead in expressing their confidence in the security and stability of the Western Provinces by placing the rates of interest on loans to public bodies on a basis uniform with those in other Provinces.

(b) *Bank Profits.*

Our Report on this topic has of necessity been based largely on data supplied by the banks. Any other information available to us has not disclosed that the banks have paid excessive dividends to their shareholders. It may be argued, however, that figures based on a ten-year average of earnings of all the banks compared with an average over a similar period of the investment of the shareholders may not be the most accurate method of approach. The

publication annually of a dividend rate based on the original par value of shares has no doubt been the cause of any existing feeling that excessive dividends have been paid. I therefore suggest that the Department of Finance or the Inspector-General might compile a more complete analysis of the earnings of typical banks for the benefit of the Standing Committee on Banking and Commerce for the purpose of more fully allaying any public apprehension.

(c) *Bank Directorates.*

I desire to add a brief comment to our Report on this topic. Although protest was voiced at several of our hearings against the extent to which bank directors are directors of other corporations, no practical suggestion was offered as to how any limitation might be effected. I have been unable to see how, by legislation, Parliament could differentiate between corporations so as to say that bank directors should not be directors of a certain class. In any event, the formation of a central bank to exercise the purposes proposed in our Report would do much to allay a very considerable amount of public apprehension on this subject.

## 2. Suggested Constitution of a Canadian Central Bank

In Appendix I it is suggested (a) that the capital of the central bank should be $5,000,000 offered for public subscription, and (b) that the first Governor, Deputy Governors and Directors should be appointed by the Governor General in Council, and that future appointments of the Governor and Deputy Governors should be subject to the approval of the Governor General in Council. This implies that future appointments of Directors and chief executive officers should be made by the shareholders subject to the approval aforesaid.

I dissent from this suggestion and recommend that the capital be subscribed by the Government of Canada, and that all directors and executive officers be appointed by that Government, each appointment to be for a fixed number of years.

The source of capital is in itself of little significance. The control of the bank is of great significance. The election of directors by private shareholders means private control, and notwithstanding the limitation of the rate of dividends, this control might place earning capacity as a first consideration. The only reason advanced in favour of private, as against national, control is the fear of political influence. I am not impressed by this argument. I believe the selection of directors and executive officials by a Government would be as wise as that of a body of shareholders, the majority of whom might vote by proxy. It is admitted that the State must ultimately retain sovereignty in matters affecting currency. Emphasis is placed upon the necessity of close accord between the bank and the Government in all that pertains to the external value of the country's currency. The primary purposes of a central bank are, in paragraph 206 of the Report, defined to be the regulation of the currency in the best interests of the State, and by wise and timely co-operation with similar institutions in other countries to mitigate as far as possible fluctuations in the general level of economic activity.

In times of stress the policies of the State must prevail, whatever may be the constitution of such a bank. In normal times I am of the opinion that the function of the Governor, Deputy Governors and Board in carrying on all the functions of such a bank would not suffer as a result of appointment by the Government. It is suggested, in the plan in the Appendix that the Government should exercise partial authority in the selection of the executive officers of the bank. In my judgment it should exercise full authority.

3. Exchange

As stated in our Introductory Chapter, our terms of reference are very wide and might be deemed to include many topics of public interest. We decided " to take a more moderate view of the duty entrusted to us and have considered it rather to be our task to enter upon the field of these large topics only insofar as they affect and are affected by the more specific subject of our study, namely, the banking and currency systems of Canada." The fact that our inquiry was carried on at a time of rapid changes in the exchange value of the Canadian dollar in relation to the American dollar and the British pound sterling, and the uncertainty as to what further changes may result from policies adopted or about to be adopted in other countries, makes it inadvisable to attempt, for example, to express any opinion on such a subject as a Canadian policy of exchange, which otherwise I would have personally desired to consider. I feel it my duty, however, to comment briefly on certain representations made at our hearings on a subject which I feel is within the view we have taken of our task.

4. Interest Rates

At our hearings in every province of Canada the feeling was expressed by witnesses representing Provincial Governments, municipal bodies as well as many branches of industry in Canada, that interest rates were high and should be lowered. It is not my purpose to express any opinion as to whether interest rates on loans are high in comparison with the present interest rates on deposits. I do suggest that interest rates on deposits should be further reduced in order that reduced rates of interest on loans might result. The following extract appears in the Report of the Committee on Monetary and Financial Questions to the Imperial Economic Conference at Ottawa in 1932:—

> " In the monetary sphere the primary line of action towards a rise in prices should be the creation and maintenance, within the limits of sound finance of such conditions as will assist in the revival of enterprise and trade. Among these conditions are low rates of interest and an abundance of short term money."

It would seem clear there is no dearth of money in Canada awaiting investment, but it is suggested there is no demand for loans. I do not consider this a comprehensive reply. While admitting that, under present conditions, there is little private initiative in expanding industrial activity, and that recovery in general business is largely dependent on the psychology of the people, there is nevertheless a wide field in which lower interest rates would prove a benefit. Lowering of interest rates on deposits would lead to a lowering of rates on the higher grade of bonds, both public and private, by leading depositors to seek more remunerative fields of investment and thus facilitate the refunding operations at lower rates of interest of both governmental authorities and industrial bodies. Annual carrying charges would thus be reduced. It should result in a reduction of rates on current loans, thus relieving the burden of all governmental authorities, Dominion, Provincial and Municipal. It should result in a general reduction of rates of interest that should permeate every phase of industrial and private enterprise and should thus result in some decided stimulus to a revival of business.

J. E. BROWNLEE.

Ottawa,
September 28, 1933.

# MEMORANDUM OF DISSENT

## By Mr. BEAUDRY LEMAN

In formulating the reasons for my dissent from certain arguments and conclusions embodied in our Report, I am deeply conscious of two main disabilities. It will undoubtedly be considered presumptuous that I should express opinions at variance with those of my colleagues, and particularly of the eminent and experienced gentlemen from Great Britain, who have been requested to study our Canadian financial problems and to advise the Dominion Government in regard to their solution. Furthermore, it is but natural to expect that my observations will be interpreted as having been influenced by my connection with banking affairs.

Notwithstanding the embarrassing situation in which I unwillingly have been placed, I must, in the discharge of the duty thrust upon me, state my conviction that:—

(1) The time is inopportune for organizing a central bank in Canada because: (*a*) In a time of great economic difficulties the authority of Governmental bodies carries more force if exercised directly and in co-operation with the financial institutions of a country. The division of forces, incidental to the establishment of another expensive mechanism, will not bring to the Canadian monetary and financial system additional wealth or capital, but will divest the State of some of the powers it now exercises, and will diminish the strength of the existing institutions. (*b*) It is difficult to conceive how and to what extent, under present conditions, a monetary system can be placed beyond political influence. In Great Britain, the Government, and not the Bank of England, provided the funds to establish and operate the "equalization fund" in which some seventeen hundred millions of dollars are now involved; in the United States the provisions of the statutes governing the activities of the Federal Reserve Banks have been profoundly altered, this year, to conform with the policies and exigencies of the Government of the United States; in France, only last year, Parliament voted some ninety millions of dollars to guarantee the losses sustained by the Bank of France in pursuance of the instructions issued by the Government of France to the effect that credit balances were not to be withdrawn from Great Britain; these instances of what is happening in the wealthiest and most powerful countries in the world, each provided with a central bank, should offer sufficient evidence as to what must inevitably happen in countries of lesser financial importance. (*c*) In the realm of monetary and financial policies the world is presently in a state of flux, and therefore it behooves Canada to proceed cautiously and to await developments which might well necessitate fundamental changes in regard not only to the superstructure but to the very foundations of a central bank.

(2) Under existing conditions, the Parliament of Canada should not proceed to enact legislation establishing a central bank, because: (*a*) Under the British North America Act of 1867 this Dominion was organized as a federation of provinces on the basis of a decentralization of legislative powers, as set forth in paragraph No. 178 of our Report. Matters of banking and currency on the one hand, and of property and civil rights on the other hand, are interpenetrating and overlapping. I disclaim any qualification whatsoever to even discuss these intricate constitutional problems, but do strongly urge that they be carefully studied and defined before Canada embarks on a long voyage over an uncharted route. (*b*) Regardless of the constitutional aspects of the question,

if a central bank is to be a co-ordinating agency in this country it would seem indispensable to ascertain beforehand that such an institution would be assured of the goodwill and co-operation of each and every one of the Provinces of Canada. Before a central bank can hope to speak with one voice on behalf of Canada, it would seem desirable that it should have authority to express the views not only of the Dominion Government but also those of all the Provinces.

(3) Certain features of the suggested constitution of a central bank for Canada, should one be established ultimately, appear unacceptable and do not afford sufficient safeguards in regard to currency and monetary matters: (*a*) In addition to minor objections to a number of clauses, notably to clause No. 8, which fails to differentiate between the ratio of deposits to be made in the central bank in respect of notice deposits on the one hand, and of demand deposits on the other, I do take strong exception to clause No. 13, which states that: " The bank should maintain a proportion of 25 per cent in gold and foreign exchange against its outstanding note issue and sight liabilities." This clause makes no provision for the holding by the bank of a minimum amount of gold, or of a minimum percentage of gold against liabilities, nor does it even provide that the foreign exchange held by the bank should be convertible into gold. It will be argued that the Governors and Directors of the central bank would exercise their authority with prudence, skill and discretion, and that, in practice, sufficient gold would be held in reserve, and that a judicious choice would be made of the foreign exchange held by the central bank. The clause appears all the more surprising at a time when no one can have forgotten what befell the sterling, French franc and United States dollar exchange. Shall the currency of Canada be exposed to the uncertainties which might arise from possible errors of judgment on the part of the central bank? Can we be so sanguine as to hope that those who will guide the central bank and determine its policies will be men of such calibre that they will be at all times above human frailty, and will outclass in ability and foresight the bankers now at the head of the oldest and most powerful central banking institutions in the world? (*b*) Paragraph No. 207 of our Report acknowledges that the State " must necessarily retain ultimate sovereignty in matters affecting the currency," and I find it difficult to reconcile this fundamental consideration with the power proposed to be given to the central bank under clause No. 13. Surely the Parliament of Canada would not confer upon any organization, much less one privately owned, the right, implied in this clause, to strip this country bare of every ounce or dollar of gold and ship it abroad, holding in exchange, as the sole backing of the currency of Canada and as the bulk of its cash reserves, a claim on some inconvertible outside or foreign currency. The mere suggestion that such a situation might develop would be more than enough to wreck the credit standing of this country and undermine the confidence which long years of faithful and sound banking have brought to Canadian institutions, both public and private.

(4) Sufficient stress has not been laid upon the factors of national recovery, far more dependable and permanent than the temporary advantages of export trade of raw materials or foodstuffs. Outside markets for our surplus specialized production of certain commodities should unquestionably be sought, but it should always be borne in mind that world markets are unreliable and a source of constantly recurring disappointments. Rightly or wrongly, but as a matter of fact, the countries of the world are economically becoming more and more nationalistic. Are we to await the belated results of international conferences between bankers, that may or may not, in the near or remote future, restore international exchanges and trade, or shall we endeavour to build up as rapidly and as soundly as possible our own domestic market? Paragraphs Nos. 243 and 244 should be read and studied in the light of the effect that world prices have had on the value of field crops.

(5) Measures calculated to develop intra-Imperial co-operation or Imperial monetary co-operation, as set forth in paragraph No. 211, should not be developed beyond the scope of providing ample facilities for the interchange of goods and services, unless the people of Canada understand and decide, in full knowledge of the consequences, that close monetary co-operation may lead to close economic association which in turn is a step towards common political action.

(6) The criticism will doubtless be offered that the foregoing observations are limited to reservations of a negative nature and do not contain suggestions of a constructive character. It should, however, be borne in mind that the Government of Canada sought recommendations from a group of men, formed into a commission, and not from its individual members.

Respectfully submitted,

BEAUDRY LEMAN.

OTTAWA,
September 27, 1933.

# APPENDIX

## 1. SUGGESTIONS AS TO SOME OF THE MAIN FEATURES OF THE CONSTITUTION OF A CENTRAL BANK FOR CANADA

| *Constitution* | *Notes and Comments* |
|---|---|
| 1. The bank should have a head office and should be allowed to establish branches, to act as note depots, etc., and to take over the offices of the Assistant Receivers General. | |
| 2. The capital should be $5,000,000, offered for public subscription; all shareholders to be British subjects resident in Canada. | *Amount.*—It is not necessary for a central bank to have capital larger than is required to provide for its initial expenses, office buildings, etc. The smaller the capital, within reason, the less is the necessity to make profits for dividend purposes. By making the shares into small denominations and by limiting the amount which any one shareholder may hold, a wide distribution is effected and a large number of stockholders ensured; both these objects are very desirable. A central bank is in the nature of a large public trust and it is desirable therefore that its stock should not be held by foreigners. |
| 3. The bank should be managed by a Board composed of a Governor, Deputy Governor, Assistant Deputy Governor and six to eight Directors. The Governors should be men of tested banking experience and the Directors men of diversified occupations; none of the latter should be bankers or bank directors and no member of the Board should be a member of the Dominion Parliament or any Provincial Legislature, or a Civil Servant.<br>The first Governor, Deputy Governors and Directors should be appointed by the Governor General in Council. The Directors should retire in rotation. Future appointments of the Governor and Deputy Governors should be subject to the approval of the Governor General in Council. | |
| 4. The bank should have the sole right of note issue; the commercial banks' issue should be redeemed over a specified period of years. | *Note Issue.*—A central bank is responsible for the control of the volume of credit and the maintenance of the stability of the value of the currency. This responsibility connotes that the bank should be granted the sole right of issuing currency (other than coin) for it would be intolerable that a central bank's policy should be hampered by the action of other issuing authorities in a country. The experience of other countries has shewn conclusively that the right of issue is not indispensable in assuring adequate profits to commercial banks. |

5. The dividend should be limited to 5 per cent or 6 per cent cumulative.

*Dividend.*—A small dividend has the advantages of:—

(*a*) relieving the central bank of the necessity to make large profits;
(*b*) putting its stock on a gilt-edge basis;
(*c*) preventing undue speculation in its stock.

6. After provision for dividend and suitable provision for reserves the remainder of the profits should go to the Government.

7. The bank should be the banker of the Dominion Government and might also by agreement become the banker of Provincial Governments.

The bank should be the banker of the Government and if possible the Provincial Governments, because by concentrating the receipts and payments on Government accounts the central bank can take steps to prevent any undue effect on the credit situation which might otherwise result from an uneven flow of revenues. Further, as the financial adviser of the Government, it should logically be its banker. Finally, the Government should conduct its temporary borrowings through only one channel.

8. A minimum deposit equal to, say, 5 per cent of its deposit liabilities in Canada should be maintained by each commercial bank with the bank.

*Deposits.*—The volume of credit extended by the commercial banks is predicated on the amount of their cash reserves. It is essential, therefore, that the central bank should have the custody of part of these cash reserves in order that it may be able to make its policy effective.

9. The bank should take over the issue and management of the public debt of the Dominion Government (and possibly also of the Provincial Governments).

10. The principal operations which the bank should be allowed to conduct, should be:

(*a*) to buy and sell gold;
(*b*) to buy and sell silver;
(*c*) to buy and sell foreign exchange;
(*d*) to buy and sell 90 days' (or 120 days') prime bank or commercial bills;
(*e*) to buy and sell a limited amount of six months' agricultural bills;
(*f*) to buy and sell short term (up to 12 months) domestic Dominion and Provincial Government securities;
(*g*) to buy and sell a limited amount of long term Dominion and Provincial securities;
(*h*) to buy and sell short term securities of the United Kingdom, British Dominions, the United States and France;
(*i*) to buy and sell a limited amount of long term British and United States Government securities;
(*j*) to grant advances on any of the foregoing (or any other readily marketable securities);
(*k*) to accept deposits without interest;
(*l*) to discount promissory notes suitably secured of banks up to say 15 days' currency.

*Powers.*—In general a central bank's powers are defined in order that it may:—

(*a*) do only the very highest class of business;
(*b*) invest only in the most liquid types of securities so that it is always in a strong position to come to the aid of the commercial banks in time of need. It would be little use in time of crisis if the central bank had invested largely in assets similar to those of the commercial banks;
(*c*) maintain a strong position that will enable it to tide the country over periods of strain caused by temporary disturbances in the balance of payments.

11. The bank should be prohibited from:—

(*a*) engaging in trade;
(*b*) making unsecured loans;
(*c*) paying interest on deposits;
(*d*) allowing the renewal of bills;

(*e*) advancing to the Dominion Government in excess of say 33⅓ per cent of the income expected during any one year, or to a Provincial Government in excess of say 25 per cent of yearly income, in both cases the repayment of advances to be complete by the end of the first quarter after the close of the fiscal year.

12. The bank should concentrate the gold holdings of the country.

13. The bank should maintain a proportion of 25 per cent in gold and foreign exchange against its outstanding note issue and sight liabilities.

The normal effective reserve of a central bank is the amount of its reserve in excess of its legal minimum. It is now widely recognized that, in order to allow central banks a large measure of freedom, their minimum legal reserve proportion should be relatively low, and recently at the World Monetary and Economic Conference, it was recommended that such minimum legal reserve should not exceed 25 per cent.

## 2 PAID-UP CAPITAL AND RESERVE FUND OF INDIVIDUAL CHARTERED BANKS IN 1933

(Submitted by Canadian Bankers' Association)

| — | Amount thereof paid up in cash | Amount thereof issued to shareholders of purchased banks as consideration of purchase | — |
|---|---|---|---|
| 1. PRESENT PAID-UP CAPITAL | | | |
| Bank of Montreal | $24,608,300 | $11,391,700 | |
| Bank of Nova Scotia | 7,185,700 | 4,814,300 | |
| Bank of Toronto | 6,000,000 | ............... | |
| Banque Provinciale du Canada | 4,000,000 | ............... | |
| Canadian Bank of Commerce | 14,031,496 | 15,968,504 | |
| Royal Bank of Canada | 24,440,000 | 10,560,000 | |
| Dominion Bank | 7,000,000 | ............... | |
| Banque Canadienne Nationale | 5,500,000 | 1,500,000 | |
| Imperial Bank of Canada | 6,725,800 | 274,200 | |
| Barclays Bank (Canada) | 500,000 | ............... | |
| | $99,991,296 | $44,508,704 | |
| — | Amount thereof from cash premiums on issues | Amount thereof set aside from profits | Amount thereof, if any, added in connection with purchase of assets of other banks |
| 2. PRESENT RESERVE FUND | | | |
| Bank of Montreal | $11,798,167 | $16,961,208 | $ 9,240,625 |
| Bank of Nova Scotia | 9,080,520 | 6,381,473 | 8,538,006 |
| Bank of Toronto | 4,074,836 | 4,925,164 | ............... |
| Banque Provinciale du Canada | 300,000 | 1,200,000 | ............... |
| Canadian Bank of Commerce | 7,888,048 | 11,106,146 | 11,005,804 |
| Royal Bank of Canada | 20,402,069 | 4,626,230 | 9,971,700 |
| Dominion Bank | 5,900,000 | 3,100,000 | ............... |
| Banque Canadienne Nationale | 2,159,450 | 3,340,550 | 1,500,000 |
| Imperial Bank of Canada | 5,181,227 | 2,818,773 | ............... |
| Barclays Bank (Canada) | 500,000 | ............... | ............... |
| | $67,284,317 | $54,459,544 | $40,256,135 |

## 3. DISTRIBUTION OF BANK SHARES, 31ST DECEMBER, 1932

(Submitted by Canadian Bankers' Association)

| | | |
|---|---|---|
| 1. Number of shares issued | | 1,445,000 |
| 2. Number of shareholders | | 48,271 |
| 3. Average number of shares held | | 29·9 |
| 4. Number of shares held by directors | | 54,883 |
| 5. Number of directors | | 167 |
| 6. Average number of shares held by directors | | 328·6 |
| 7. Value of average number of shares held by directors (Capital $144,500,000, plus Reserves $162,000,000) | $ | 69,700 |

8. Distribution of shareholders, by provinces, etc.:—

| Province, etc. | No. of share-holders | No. of shares held | Percentage of total shares | Average Holding | No. of shares per 1,000 of population |
|---|---|---|---|---|---|
| Nova Scotia | 6,789 | 150,837 | 10·44 | 22·2 | 294·0 |
| New Brunswick | 1,101 | 20,355 | 1·41 | 18·4 | 49·7 |
| Prince Edward Island | 509 | 7,127 | 0·49 | 14·0 | 80·9 |
| Quebec | 10,960 | 427,247 | 29·57 | 38·9 | 147·1 |
| Ontario | 13,489 | 391,402 | 27·09 | 29·0 | 113·1 |
| Manitoba | 1,000 | 21,897 | 1·52 | 21·8 | 31·0 |
| Saskatchewan | 620 | 5,372 | 0·37 | 8·6 | 5·5 |
| Alberta | 583 | 9,099 | 0·62 | 15·6 | 12·2 |
| British Columbia | 1,067 | 20,655 | 1·43 | 19·3 | 29·3 |
| Great Britain | 5,081 | 138,389 | 9·58 | 27·2 | |
| United States | 5,694 | 210,997 | 14·60 | 37·0 | |
| Elsewhere | 1,378 | 41,623 | 2·88 | 30·2 | |
| | 48,271 | 1,445,000 | 100·00 | 29·9 | |

## 4. RECENT CHANGES IN THE DIVIDEND RATES OF THE CANADIAN CHARTERED BANKS

(Submitted by Canadian Bankers' Association)

| — | Quarterly Rate | Bonus (per annum) |
|---|---|---|
| | per cent | per cent |
| *Bank of Montreal—* | | |
| December 1930 | 3 | 2 |
| December, 1931 | 3 | |
| September, 1932 | 2½ | |
| June, 1933 | 2 | |
| *Bank of Nova Scotia—* | | |
| January, 1931 | 4 | |
| October, 1932 | 3½ | |
| July, 1933 | 3 | |
| *Bank of Toronto—* | | |
| December, 1930 | 3 | 1 |
| December, 1931 | 3 | |
| September, 1932 | 2½ | |
| *Banque Provinciale du Canada—* | | |
| December, 1930 | 2¼ | |
| October, 1932 | 2 | |
| January, 1933 | 1¾ | |
| June, 1933 | 1½ | |
| *Canadian Bank of Commerce* | | |
| November, 1930 | 3 | 1 |
| November, 1931 | 3 | |
| September, 1932 | 2½ | |
| June, 1933 | 2 | |
| *Royal Bank of Canada—* | | |
| December, 1930 | 3 | 2 |
| December, 1931 | 3 | |
| September, 1932 | 2½ | |
| June, 1933 | 2 | |
| *Dominion Bank—* | | |
| December, 1930 | 3 | 1 |
| December, 1931 | 3 | |
| September, 1932 | 2½ | |
| *Banque Canadienne Nationale—* | | |
| December, 1930 (unchanged) | 2½ | |
| *Imperial Bank of Canada—* | | |
| November, 1930 | 3 | 1 |
| November, 1931 | 3 | |
| November, 1932 | 2½ | |
| *Barclays Bank (Canada)* | Nil. | Nil |

## 5. BANK PROFITS AND DIVIDENDS

AVERAGES AS PER ANNUAL STATEMENTS FOR THE TEN YEARS 1923-32 INCLUSIVE

(Submitted by Canadian Bankers' Association)

| | | |
|---|---|---|
| 1. | Average paid up capital | $ 123,605,663 |
| 2. | Average reserve fund | 137,370,735 |
| 3. | Average undivided profits | 7,181,755 |
| 4. | *Average shareholders' investment* | $ 268,158,153 |
| 5. | Average net annual profit available for dividends | $ 17,064,957 |
| 6. | Percentage (of 5) on shareholders' investment (4) | 6·36% |
| 7. | Percentage (of 5) on average total assets (final column, Monthly Returns, $2,975,860,542) | 0·57% |
| 8. | Average dividends paid | $ 15,919,384 |
| 9. | Percentage (of 8) on shareholders' investment (4) | 5·93% |
| 10. | Average transfer to reserve fund (from earnings only and not to include premiums on new stock issues) | $ 939,869 |
| 11. | Percentage (of 10) on shareholders' investment (4) | 0·35% |

## 6. DEPOSITS AND LOANS ABROAD

(Submitted by Canadian Bankers' Association)
(000 omitted)

| Year | Average deposits abroad | Average loans abroad (exclusive of call loans) | Average call loans abroad | Average total loans abroad |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| 1923 | 302.265 | 161,594 | 198,047 | 359,641 |
| 1924 | 332.533 | 181,651 | 181,705 | 363,356 |
| 1925 | 362,103 | 220.098 | 225.461 | 445.559 |
| 1926 | 330.399 | 261,415 | 250.080 | 511,495 |
| 1927 | 349,008 | 269,337 | 268,536 | 537,873 |
| 1928 | 372,452 | 261,944 | 267,352 | 529.296 |
| 1929 | 418,138 | 248,367 | 301,090 | 549,457 |
| 1930 | 390,403 | 238,954 | 187.706 | 426,660 |
| 1931 | 332,902 | 205,382 | 108,574 | 313,956 |
| 1932 | 312,293 | 171,861 | 84,227 | 256,088 |

## 7. AMOUNT OF BRITISH, FOREIGN AND COLONIAL PUBLIC SECURITIES OTHER THAN CANADIAN, INCLUDED IN ITEM 11 OF ASSETS, IN MONTHLY RETURNS

(Submitted by Canadian Bankers' Association)

| December 31 | $ | December 31 | $ |
|---|---|---|---|
| 1913 | 4,266,083 | 1925 | 65,456,553 |
| 1914 | 4,526,285 | 1926 | 58,816,432 |
| 1919 | 154,884,077 | 1927 | 67,527,226 |
| 1920 | 106,464,850 | 1928 | 46,166,934 |
| 1921 | 51,792,306 | 1929 | 44,560,532 |
| 1922 | 39,255,278 | 1930 | 64,209,357 |
| 1923 | 61,166,994 | 1931 | 71,723,727 |
| 1924 | 73,821,140 | 1932 | 72,069,094 |

## 8. NET FUNDS HELD ABROAD BY CANADIAN BANKS

(including holdings of securities other than Canadian)

(Submitted by Canadian Bankers' Association)

(Millions of Dollars)

| 31st December | 1913 | 1914 | 1919 | 1920 | 1921 | 1922 | 1923 | 1924 |
|---|---|---|---|---|---|---|---|---|
| Net funds abroad, excluding securities other than Canadian | 87·7 | 67·2 | 116·8 | 121·6 | 89·8 | 94·4 | 113·7 | 113·7 |
| British, Foreign and Colonial public securities, other than Canadian | 4·2 | 4·5 | 154·8 | 106·4 | 51·7 | 39·2 | 61·1 | 73·8 |
| Net funds abroad including securities other than Canadian | 91·9 | 71·7 | 271·6 | 228·0 | 141·5 | 133·6 | 174·8 | 187·5 |
| | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 |
| Net funds abroad, excluding securities other than Canadian | 213·5 | 277·6 | 232·6 | 169·9 | 89·8 | 65·6 | 55·4 | 11·0 |
| British, Foreign and Colonial public securities other than Canadian | 65·4 | 58·8 | 67·5 | 46·1 | 44·5 | 64·2 | 71·7 | 72·0 |
| Net funds abroad including securities other than Canadian | 278·9 | 336·4 | 300·1 | 216·0 | 134·3 | 129·8 | 127·1 | 83·0 |

## 9. PAYMENTS BY BANKS TO DOMINION GOVERNMENT ON ACCOUNT OF BANK NOTE CIRCULATION TAX, INTEREST ON EXCESS CIRCULATION AND FINANCE ACT ADVANCES

(Submitted by Department of Finance)

| Fiscal Years | 1 per cent Tax on Bank Note Circulation | Interest on Excess Circulation | Interest on Finance Act Advances |
|---|---|---|---|
| 1908–09 | ............... | $ 2,672 62 | $ |
| 1909–10 | ............... | 8,857 80 | |
| 1910–11 | ............... | 15,889 75 | |
| 1911–12 | ............... | 46,446 66 | |
| 1912–13 | ............... | 45,479 21 | |
| 1913–14 | ............... | 26,669 80 | |
| 1914–15 | ............... | 31,132 23 | $ 211,551 97 |
| 1915–16 | $ 1,300,446 80 | 40,285 65 | 62,722 49 |
| 1916–17 | 1,114,023 30 | 58,101,03 | 177,690 24 |
| 1917–18 | 1,115,757 65 | 115,220 95 | 869,125 83 |
| 1918–19 | 1,099,764 44 | 81,712 32 | 2,471,593 02 |
| 1919–20 | 1,170,223 45 | 65,895 85 | 3,399,110 84 |
| 1920–21 | 1,257,533 70 | 137,713 17 | 3,644,056 72 |
| 1921–22 | 1,293,697 43 | 34,958 87 | 2,426,342 01 |
| 1922–23 | 1,244,437 14 | 36,838 63 | 1,249,677 90 |
| 1923–24 | 1,236,957 57 | 58,691 61 | 775,170 38 |
| 1924–25 | 1,217,753 85 | 25,404 78 | 676,674 77 |
| 1925–26 | 1,176,868 95 | 30,833 96 | 312,968 90 |
| 1926–27 | 1,174,664 95 | 18,172 94 | 368,614 75 |
| 1927–28 | 1,224,644 46 | 15,991 79 | 524,202 29 |
| 1928–29 | 1,242,398 99 | 31,083 18 | 1,671,907 71 |
| 1929–30 | 1,408,419 60 | 27,333 77 | 2,234,828 93 |
| 1930–31 | 1,429,263 99 | 4,163 91 | 539,984 25 |
| 1931–32 | 1,390,120 57 | 6,505 51 | 360,247 57 |
| 1932–33 | 1,327,534 50 | 1,957 52 | 806,131 52 |
| | $22,424,511 34 | $ 968,013 51 | $ 22,782,602 09 |

## 10. TAXES PAID BY BANKS 1923-1932, INCLUSIVE

(Submitted by Canadian Bankers' Association)

(000 omitted)

| Year | Dominion taxes | Provincial taxes | Municipal taxes | Total taxes paid | | Total taxes |
|---|---|---|---|---|---|---|
| | | | | Canada | Abroad | |
| | $ | $ | $ | $ | $ | $ |
| 1923 | 1,988 | 945 | 2,876 | 5,809 | 806 | 6,615 |
| 1924 | 1,983 | 972 | 2,997 | 5,952 | 885 | 6,837 |
| 1925 | 2,006 | 996 | 3,141 | 6,143 | 979 | 7,122 |
| 1926 | 1,824 | 1,108 | 3,312 | 6,244 | 919 | 7,163 |
| 1927 | 1,846 | 1,040 | 3,239 | 6,124 | 1,372 | 7,496 |
| 1928 | 1,943 | 1,070 | 3,452 | 6,466 | 1,483 | 7,949 |
| 1929 | 2,254 | 1,143 | 3,690 | 7,088 | 1,773 | 8,861 |
| 1930 | 2,444 | 1,231 | 3,821 | 7,496 | 1,316 | 8,812 |
| 1931 | 2,582 | 1,278 | 3,928 | 7,788 | 1,059 | 8,847 |
| 1932 | 2,677 | 1,643 | 4,048 | 8,368 | 778 | 9,146 |
| | 21,547 | 11,426 | 34,504 | 67,478 | 11,370 | 78,848 |

## 11. ESTIMATED VALUE OF NOTE CIRCULATION PRIVILEGE OF TYPICAL BANK

(Submitted by Canadian Bankers' Association)

| | | |
|---|---|---|
| Average amount of notes in circulation | | $ 30,350,000 |
| *Deduct:* 15% Cash Reserves | | 4,552,500 |
| Net amount available for loaning and investment | | $ 25,797,500 |
| Gross revenue on 4½% basis | | $ 1,160,887 |
| Expenses: | | |
| Dominion Government Tax on Circulation | $ 303,500 | |
| Printing, postage, insurance, destruction, etc. | 125,000 | |
| Salaries at Head Office Circulation Dept. and at supply points, and estimated expense at other branches in handling and clearing notes | 150,000 | |
| Additional interest on Circulation Redemption Fund, i.e., the difference between 3%, the amount paid, and 4½%, the value of the funds, viz., 1½% on $1,650,000 | 24,750 | |
| | | 603,250 |
| | | $ 557,637 |
| *Deduct:* Federal Income Tax 12½% | | 69,704 |
| Apparent net profit (which is 1·60% of average circulation) | | $ 487,933 |

### CIRCULATION

#### TILL MONEY

If circulation privileges were withdrawn, it would be necessary to replace bank notes presently held at branches with at least $15,000,000 legal tender. Assuming money to be worth 4½ per cent, this would involve a direct loss of revenue to the bank of ............ $ 675,000

Add to this amount the apparent net profit on existing circulation privileges of ............ 487,933

The total cost to the bank of withdrawal of the privilege would be ............ $ 1,162,933

This represents 30·15 per cent of the amount distributed to shareholders in the year 1932, and 41·5 per cent of the amount of distribution in 1933, assuming a continuance of the present rate of dividend.

## 12. BOND ISSUES—SUMMARY 1910 - 1932 (Inclusive)

(These figures include only new issues of borrowed capital—not issues of shares)
(Figures supplied by Investment Bankers' Association of Canada)

| — | 1932 | 1931 | 1930 | 1929 | 1928 | 1927 | 1926 | 1925 | 1924 | 1923 | 1922 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Dominion of Canada | 226,250,000 | 864,307,500 | 100,000,000 | *115,310,500 | 78,876,333 | 149,945,500 | 177,732,000 | 248,955,000 | 266,290,800 | 281,339,500 | 333,727,000 |
| Provincial | 136,440,301 | 123,157,205 | 158,081,800 | | | | | | | | |
| Municipal | 84,420,174 | 86,770,306 | 113,211,556 | 99,579,207 | 29,909,525 | 70,761,832 | 65,452,234 | 50,156,177 | 91,697,376 | 83,819,847 | 79,010,374 |
| Railway | 12,500,000 | 121,750,000 | 138,487,000 | 198,000,000 | 43,396,000 | 80,000,000 | 34,500,000 | 40,925,195 | 157,375,000 | 27,500,000 | 12,790,000 |
| Public Service Corporation | 6,245,000 | 45,300,000 | 143,120,500 | 83,100,000 | 58,260,000 | 96,225,000 | 126,750,000 | 65,874,500 | 39,161,900 | 34,130,000 | 9,751,500 |
| Industrial and Miscellaneous | 1,840,000 | 8,972,000 | 52,190,000 | 132,026,500 | 213,183,000 | 211,212,067 | 155,482,188 | 52,676,000 | 38,233,680 | 66,354,320 | 47,576,400 |
| Total | 467,695,475 | 1,250,257,011 | 705,090,856 | 628,016,207 | 423,624,858 | 608,144,399 | 559,916,422 | 458,586,872 | 592,758,756 | 493,143,667 | 482,855,274 |
| | % | % | % | % | % | % | % | % | % | % | % |
| Percentage placed in Canada | 79·55 | 85·78 | 51·82 | 52·42 | 48·50 | 49·18 | 50·20 | 56·76 | 64·58 | 82·21 | 46·04 |
| Percentage placed in U.S.A. | 17·35 | 13·62 | 46·51 | 43·18 | 47·96 | 49·06 | 47·95 | 42·24 | 34·32 | 17·16 | 53·52 |
| Percentage placed in Great Britain | 3·10 | 0·60 | 1·67 | 4·40 | 3·54 | 1·76 | 1·85 | 1·00 | 1·10 | 0·63 | 0·44 |

| — | 1921 | 1920 | 1919 | 1918 | 1917 | 1916 | 1915 | 1914 | 1913 | 1912 | 1911 | 1910 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Dominion of Canada | 133,488,500 | 113,455,500 | 781,812,000 | 704,632,729 | 675,182,500 | 208,621,933 | 214,814,133 | 85,415,330 | 53,066,550 | 35,639,700 | 5,675,000 | 55,000,000 |
| Provincial | | | | | | | | | | | | |
| Municipal | 88,805,973 | 58,994,728 | 27,166,393 | 45,805,720 | 26,104,067 | 49,893,763 | 66,508,073 | 84,388,431 | 115,761,925 | 48,414,962 | 47,159,288 | 35,748,690 |
| Railway | 101,150,000 | 96,500,000 | 35,355,133 | 5,000,000 | 22,566,666 | 15,920,000 | 37,915,665 | 59,405,666 | 108,528,044 | 69,972,320 | 100,472,700 | 69,950,000 |
| Public Service Corporation | 15,450,000 | 11,500,000 | 20,950,000 | 2,375,000 | 15,425,000 | 22,950,000 | 10,225,000 | 9,777,954 | 26,574,479 | 21,565,000 | 32,105,500 | 7,945,400 |
| Industrial and Miscellaneous | 61,290,345 | 38,381,853 | 44,100,202 | 6,155,000 | 17,067,800 | 19,531,666 | 12,430,000 | 33,947,686 | 69,864,297 | 97,346,000 | 81,400,500 | 62,356,500 |
| Total | 400,184,818 | 318,832,081 | 909,383,728 | 763,968,449 | 756,346,033 | 316,917,362 | 341,892,871 | 272,935,067 | 373,795,295 | 272,937,982 | 266,812,988 | 231,000,590 |
| | % | % | % | % | % | % | % | % | % | % | % | % |
| Percentage placed in Canada | 50·36 | 32·82 | 76·89 | 94·87 | 74·63 | 33·56 | 43·71 | 12·09 | 12·20 | 13·82 | 16·86 | 17·00 |
| Percentage placed in U.S.A. | 45·49 | 67·18 | 22·54 | 4·70 | 24·71 | 64·89 | 42·11 | 19·77 | 13·56 | 11·35 | 6·58 | 1·50 |
| Percentage laced in Great Britain | 4·15 | ........... | 0·57 | 0·43 | 0·66 | 1·55 | 14·18 | 68·14 | 74·24 | 74·83 | 76·56 | 81·50 |

NOTE.—(1) Treasury bills of less than one year are not included nor are treasury bills issued to the Dominion Government by the Provinces for advances from the former.
(2) Issues of parishes or ecclesiastical institutions are listed under Industrial and Miscellaneous.
*From 1912 to 1929 Dominion of Canada and Provincial issues are included in one total.

## 13. LIST OF GOVERNMENT REPRESENTATIVES, OFFICIALS OF BANKS, PUBLIC BODIES AND INDIVIDUALS WHO APPEARED BEFORE THE COMMISSION IN THE COURSE OF ITS INQUIRY.

1. Government Representatives:

*Dominion—*
Rt. Hon. R. B. Bennett, K.C., P.C., Prime Minister.
Hon. E. N. Rhodes, K.C., Minister of Finance.
W. C. Clark, Deputy Minister of Finance.
C. E. S. Tompkins, Inspector General of Banks.

*British Columbia—*
Hon. S. F. Tolmie, Premier.

*Alberta—*
Hon. G. Hoadley, Acting Premier.
Hon. R. G. Reid, Provincial Treasurer.

*Saskatchewan—*
Hon. J. T. M. Anderson, Premier.

*Manitoba—*
Hon. J. Bracken, Premier.

*Nova Scotia—*
Hon. G. S. Harrington, Premier.

*Prince Edward Island—*
Hon. W. J. P. MacMillan, Acting Premier.

*New Brunswick—*
Hon. G. H. I. Cockburn, President Executive Council.

*Quebec—*
Hon. R. F. Stockwell, Provincial Treasurer.
G. W. Scott, Member of Legislative Council.

*Ontario—*
Hon. G. S. Henry, Premier.
Hon. C. McCrea, Minister of Mines.

2. Officials of Banks:

*At Ottawa—*
J. A. McLeod, President, Canadian Bankers' Association, and General Manager of Bank of Nova Scotia.
Jackson Dodds, General Manager, Bank of Montreal.
H. B. Henwood, General Manager, Bank of Toronto.
S. H. Logan, General Manager, Canadian Bank of Commerce.
M. W. Wilson, General Manager, Royal Bank of Canada.
H. T. Ross, Secretary, Canadian Bankers' Association.
R. E. Knight, Bank of Montreal.

*At Victoria—*
M. D. Hamilton, Canadian Bank of Commerce.
E. W. Lamprey, Bank of Toronto.

*At Calgary*—
J. B. Corbet, Canadian Bank of Commerce.
G. R. F. Kirkpatrick, Imperial Bank of Canada.
J. H. Menzies, Royal Bank of Canada.

*At Regina*—
H. F. Liggins, Canadian Bank of Commerce.
W. G. Yule, Royal Bank of Canada.

*At Winnipeg*—
J. W. Spears, Bank of Montreal.
S. L. Cork, Royal Bank of Canada.

*At Halifax*—
C. E. Mackenzie, Royal Bank of Canada.
W. V. Gordon, Canadian Bank of Commerce.

*At Charlottetown*—
L. D. Murray, Bank of Nova Scotia.

*At Saint John*—
H. L. Enman, Bank of Nova Scotia.
F. T. Palfrey, Royal Bank of Canada.

*At Quebec*—
H. des Rivieres, Banque Canadienne Nationale.
E. Haberer, Bank of Montreal.
C. Vaillancourt, La Federation des Caisses Populaires de la Province de Quebec.

*At Montreal*—
G. W. Spinney, Bank of Montreal.
G. F. Towers, Royal Bank of Canada.

*At Toronto.*
J. P. Bell, Canadian Bank of Commerce.
H. T. Jaffray, Imperial Bank of Canada.

3. Public Bodies, Organizations and Associations:

Alberta Pharmaceutical Association—M. R. Maybank.
Associated Boards of Trade, Prince Edward Island—Hon. W. J. P. MacMillan.
British Columbia Lumber Manufacturers' Association.—J. H. McCormack.
Calgary Board of Trade—D. S. Moffat, K.C.
Calgary, City of—A. Davidson, Mayor; L. W. Brockington, K.C., Alderman H. Humble.
Canadian Alliance for Womens' Votes, Montreal—Miss I. St. Jean.
Canadian Chamber of Commerce—J. W. Ross.
Canadian Federation of Insurance Agents, Toronto—R. J. Wickham.
Canadian Manufacturers' Association (Canned Salmon Section)—A. L. Hager.
Corn Growers' Association, Vancouver—W. F. Thompson.
Co-operative Commonwealth Federation, B.C. Section—W. C. Pritchard.
Douglas Credit League of Canada, Toronto—C. V. Kerslake.
Duncan Chamber of Commerce—G. A. Tisdall.
Economic Reform Association, Toronto—J. H. Craig, G. Cockburn.
Edmonton Chamber of Commerce—H. M. E. Evans.

3. Public Bodies, Organizations and Associations—*Continued*

Edmonton, City of—D. K. Knott, Mayor; Alderman C. L. Gibbs.
Edmonton Economic Club—J. A. Clarke.
Fraser Valley Milk Producers' Association—A. H. Mercer.
Halifax Board of Trade—A. B. Wiswell.
Insurance Agents' Association of Winnipeg—M. Blackburn.
Insurance Brokers' Association, Province of Quebec—W. B. Gauthier.
Investment Bankers' Association of Canada—W. C. Pitfield.
Investment Dealers of Saint John—J. M. Robinson.
Labour Party, Toronto—J. Connor.
La Commission des Produits Forestiers—J. M. Dessureault.
League for Christian Social Action, Vancouver—H. T. Allen.
League for Social Reconstruction—G. Spry.
Live Stock Union of Western Canada—R. A. Wright.
Long Branch, Village of—M. Grant.
Manitoba Co-operative Conference—J. T. Hull.
Manitoba Teachers' Federation—E. K. Marshall.
Montreal Board of Trade—H. W. Morgan.
Montreal Chamber of Commerce—V. Gratton.
Montreal Curb Market—G. Johnston.
Montreal Stock Exchange—L. G. Beaubien.
National Council of Construction Industries—G. Oakley, M.P.P., J. B. Carswell, W. M. Somerville.
Natural Order, Toronto—A. H. Allen, J. Tully.
New Brunswick Forest Products Association—W. E. Golding.
North West Grain Dealers' Association—R. T. Evans.
Ontario Fire & Casualty Insurance Agents and Local Insurance Companies, Toronto—J. T. Truman.
Ontario Secondary School Teachers' Association—S. H. Henry.
Prince Edward Island Egg & Poultry Association—J. P. Leightizer.
Provincial Parent-Teacher Association, Vancouver—Mrs. E. Delmage.
Quebec Board of Trade—E. Rochette, K.C., M.L.A., Major R. M. Watson.
Quebec Shoe Manufacturing Association—M. Marois.
Retail Merchants' Association (Alberta Provincial Board)—A. C. Mackay.
Saint John Board of Trade—F. M. Sclanders.
Saint John, City of—J. W. Brittain, Mayor.
Saskatchewan Association of Rural Municipalities—B. F. McDaniel.
Saskatoon Board of Trade—J. S. Woodward.
Saskatoon, City of—J. S. Mills, Mayor.
Society for Technocratic Research—W. Mitchell.
Teachers' Federation, Vancouver—J. H. Creighton.
Union of British Columbia Municipalities—W. Crouch.
United Farmers of Alberta—R. Gardiner, M.P., M. N. Priestley.
United Farmers of Canada (Quebec Branch)—J. B. Reid.
United Farmers of Canada (Saskatchewan Branch)—G. Bickerton.
United Farmers of Manitoba—R. McPhail.
United Farmers of Ontario—R. J. Scott, W. C. Good.
Vancouver Board of Trade—H. R. McMillan.
Vancouver, City of—J. E. McCrossan.
Vancouver, New Westminster and District Trades and Labour Council and the League of Canadian Maples—G. G. McGeer, K.C.
Victoria Chamber of Commerce—A. H. B. Ker.
Victoria, City of—D. Leeming, Mayor.
Viking Service Club of Winnipeg—W. J. Lindal, K.C.

3. Public Bodies, Organizations and Associations—*Concluded*

Winnipeg Board of Trade—E. C. Gilliat.
Winnipeg Board of Trade (Young Men's Section)—J. W. Halls, A. B. Rosevear.
Winnipeg, City of—Alderman C. Rice-Jones.
Winnipeg Stock Exchange—D. L. Rossini.
Womens' Conservative Association, Montreal—Mrs. J. Beilby.

4. Personal Representations

Allan, Prof. W., Saskatoon, Sask.
Bate, H., Belle Plaine, Sask.
Brown, F. G., Acme, Alta.
Bevington, G., Winterburn, Alta.
Boyd, H. C., Edgerton, Alta.
Bowman, C. A., Ottawa, Ont.
Belcher, F. A., Toronto, Ont.
Campbell, W., Edmonton, Alta.
Carrothers, W. A., Vancouver, B.C.
Carter, C. H., Calgary, Alta.
Case, W. A. J., Toronto, Ont.
Cassidy, R., K.C., Victoria, B.C.
Clarke, Prof. A. B., Winnipeg, Man.
Clark, P. G., Summerside, P.E.I.
Copping, J. H., Vancouver, B.C.
Corlet, W. E., Calgary, Alta.
Crowle, H. E., Calgary, Alta.
Curtis, Prof. C. A., Kingston, Ont.
Davidson, D. A., Vancouver, B.C.
Day, Prof. J. F., Vancouver, B.C.
Drummond, Prof. G. F., Vancouver, B.C.
Edwards, J. T., Chilliwack, B.C.
Eliason, F., Saskatoon, Sask.
Evans, W. S., Winnipeg, Man.
Fisher, H., Montreal, Que.
Ford, S. H., Pitt Meadows, B.C.
Fulton, W. T., Calgary, Alta.
Ganshorn, M., Grand Coulee, Sask.
Gibbons, R. S. D., Gibbons, Alta.
Glazebrook, A. J., Toronto, Ont.
Gordon, J., Innisfree, Alta.
Green, C. J., Moose Jaw, Sask.
Gregoire, Prof. J. E., Quebec, Que.
Gregory, Prof. T. E., London, Eng.
Hamilton, S. A., Moose Jaw, Sask.
Hamilton, Major W. B., Vancouver, B.C.
Harrold, J., Edmonton, Alta.
Harrold, W., Edmonton, Alta.
Hebert, E., St. Pierre, Man.
Henderson, K. A., Montreal, Que.
Henderson, T. M., Langdon, Alta.
Henri, I., Montreal, Que.
Hewetson, Prof. H. W., Edmonton, Alta.
Hilton, J. H., Saskatoon, Sask.
Hockin, J., North Lonsdale, B.C.
Hope, C. E., Vancouver, B.C.
Howson, W. R., M.L.A., Edmonton, Alta.
Hume, J. R., Souris, Man.
Hurd, Prof. W. B., Brandon, Man.
Huser, G., Crossfield, Alta.
Jackson, M. B., K.C., Victoria, B.C.
Jackson, N., Saskatoon, Sask.
Jenson, T. S., Vancouver, B.C.
Jones, J. W., Victoria, B.C.
Knox, Prof. F. A., Kingston, Ont.
Laming, W., Victoria, B.C.
Layzell, A., Calgary, Alta.
Lee, G. S., Halifax, N.S.
Leedy, J. W., Edmonton, Alta.
Lord, A. H., Winterburn, Alta.
Malmberg, O. F., High River, Alta.
Mansell, M., Vancouver, B.C.
Martin, A., South Edmonton, Alta.
Matthews, A., Halifax, N.S.
Martyn, A. D., Edmonton, Alta.
Michell, Prof. H., Hamilton, Ont.
Montpetit, Prof. E., Montreal, Que.
Moore, W. B., Pembina, Man.
Mackintosh, Prof. W. A., Kingston, Ont.
MacMillan, R. L., High River, Alta.
MacGregor, Prof. D. C., Toronto, Ont.
McKean, W. K., Halifax, N.S.
McWilliams, R. F., K.C., Winnipeg, Man.
Nichols, H. E., Clyde, Alta.
Parkinson, J. F., Prof., Toronto, Ont.
Pilling, R. W., Cardston, Alta.
Potter, E., Regina, Sask.
Powell, H. O., Regina, Sask.
Richmond, J. I., Vancouver, B.C.
Robertson, J., Mrs., Vancouver, B.C.
Robinson, Colonel C. W., Calgary, Alta.
Ross, J. A., Edmonton, Alta.
Rothwell, E., Barrie, Ont.
Rowatt, D. M., Montreal, Que.
Sinclair, A. M., Calgary, Alta.
Sine, F. E., Calgary, Alta.

Skarin, E., Edmonton, Alta.
Stapleton, M. J., Jenner, Alta.
Stewart, H. R., Charlottetown, P.E.I.
Stitt, J. H., M.P., Selkirk, Man.
Swanson, Prof. W. W., Saskatoon, Sask.
Taylor, A. C., Vancouver, B.C.
Topping, Prof. C. W., Vancouver, B.C.
Whitman, A. H., Halifax, N.S.
Woodward, E. S., Vancouver, B.C.
Woodworth, C. M., Vancouver, B.C.

## 14. LIST OF PERSONS AND ORGANIZATIONS FROM WHOM WRITTEN SUBMISSIONS WERE RECEIVED

Aker, L. M., Rumsey, Alta.
Alford, Miss E., Calgary, Alta.
Allingham, H. L., Sec'y Treas. of Rural Municipality of Glen Bain, Vanguard, Sask.
Angus, W. C., Winnipeg.
Associated Shippers of New Brunswick, Perth, N.B.
Atkinson, C., Seven Oaks, B.C.
Baldry, G. E., Winnipeg, Man.
Bartle, A. J., Calgary, Alta.
Barrette, J. A., M.P., Maskinonge, Que.
Bates, E. S., Montreal, Que.
Beaudet, R., Pres., L'Union des Cultivateurs Franco-Ontariens, Ottawa, Ont.
Bedder, W. J., Ottawa, Ont.
Bellew, E. D., V.C., Chase, B.C.
Bennett, A. H., Victoria, B.C.
Bennett, J., Commissioner of the Corporation of the District of Burnaby, Edmonds, B.C.
Bent, E. E., Landis, Sask.
Bilbrough, N. H., Toronto, Ont.
Blanchard, H. P., Ellerhouse, N.S.
Body, S., North Lonsdale, B.C.
Bohan, M., Picton, Ont.
Bonavia, W. J., Sec'y. Advisory Board of Farmers' Institutes, Victoria, B.C.
Booth, N., Reeve, District of Langley, Murrayville, B.C.
Boughner, R. D., Sec'y Kitchener Board of Trade, Kitchener, Ont.
Boyton, C. M., Castor, Alta.
Bradner, J. W., Vancouver, B.C.
Brittain, H. L., Citizens' Research Institute of Canada, Toronto, Ont.
Broderick, C. J., West Vancouver, B.C.
Browne, F. J. E., Montreal, Que.
Burgess, C. H., Chairman Committee of Supervisors, Town of Mimico, Toronto, Ont.
Campbell, C. M., Barkerville, B.C.
Campbell, J. M., Moose Jaw, Sask.
Canadian Chamber of Commerce, Montreal, Que.
Carsley, W. F., Montreal, Que.
Chapple, W. E., Vernon, B.C.
Charlton, W. F., Calgary, Alta.
Charron, G., Montreal, Que.
Chutskoff, J., Blaine Lake, Sask.
Coats, R. H., Dominion Statistician, Ottawa.
Collette, H., Westmount, Que.
Conway, W. J., Vancouver, B.C.
Coote, G. G., M.P., Nanton, Alta.
Crawford-Frost, W. A., Calgary, Alta.
Creighton, J. H., Vancouver, B.C.
Crofton, A. M., Sydney, N.S.
Curry, S. G., Toronto, Ont.
Dandridge, W. H., Victoria, B.C.
Davies, P. G., M.P., Clyde, Alta.
Dolan, Miss T. M., Delisle, Sask.
Drew, K. M., Calgary, Alta.
Eckhardt, A. J. H., Toronto, Ont.
Elliott, R. T., K.C., Victoria, B.C.
Elliott, Prof. G. A., University of Alberta, Edmonton, Alta.
Emery, C. M. W., Assiniboia, Sask.
Eoll, G. A., Fort William, Ont.
Ferguson, D. N., Toronto, Ont.
Ferguson, W., Lethbridge, Alta.
Foreman, A. E., Vancouver, B.C.
Fraids, N. J., Sec'y of Men's Woollens and Trimmings Ass'n, Montreal, Que.
Francis, E. D., Sec'y of Canadian Currency and Banking Reform League, Vancouver, B.C.
Fraser, G. L., British Columbia Bond Dealers' Association, Vancouver, B.C.
Fyfe, O. J., Sec'y of Bienfait Board of Trade, Bienfait, Sask.

Gagan, J. F., McGrath, Alta.
Gilbert, Mrs. A., Sutherland, Sask.
Golds, H. F., Delia, Alta.
Goshko, M., Nampa, Alta.
Gould, E. F., Langford P.O., B.C.
Gray, C. W., Winnipeg, Man.
Gray, W. L., Alvinston, Ont.
Grierson, J. E., Winnipeg, Man.
Grimshaw, G. D., Montreal, Que.
Haemmerle, A. R., Montreal, Que.
Halliwell, A., Mimico, Ont.
Hanson, A. H., Saskatoon, Sask.
Hansen, A. J., Prince Albert, Sask.
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